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**SPANISH
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REPORT**



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DE ESPAÑA**

**MINISTERIO DE
ECONOMÍA, INDUSTRIA
Y COMPETITIVIDAD**

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1. FINANCIAL MARKETS

The financial markets in October and November were conditioned by the expectations about the next monetary policy decisions of the major central banks and the uncertainty regarding the election results in the United States, which raised the expectations of a possible adoption of inflationary economic measures. As a result, the stock indices rose in a context of high volatility, European public debt yields increased and the euro depreciated against the dollar.

The Fed maintains the interest rates

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 1st and 2nd November, decided to maintain the target range for the Federal Funds rate at 0.25% and 0.50%, set on 17th December 2015. According to the statement that followed the meeting, labour market indicators have continued to improve and the economic activity has accelerated, in a context in which inflation has increased slightly. The FOMC believes that with a gradual adjustment in the stance of monetary policy, economic activity will expand at a moderate pace and labour market conditions will improve, in a context in which the short-term risks for the economic outlook are balanced. Moreover, the FOMC believes that the case for an increase in the Federal Funds rate has continued to strengthen, but decided, for the time being, to wait for further evidence of continued progress towards its targets.

The BoJ maintains the interest rates and the monetary stimulus plans

On the other hand, in the meeting held on 31st October and 1st November, the Bank of Japan (BoJ) decided to keep the interest rates unchanged after applying in its previous meeting held in January a negative interest rate of -0.1% to current accounts that financial institutions hold at the Bank. Similarly, the BoJ decided to keep its asset purchase programme unchanged, expanding the monetary base at an annual rate of approximately 80 trillion yen, and the exchange-traded funds programme (ETFs), which in the meeting held in July was increased to an annual increase rate in its outstanding balance of 6 trillion yen, in comparison to the previous 3.3 trillion.

The BoE maintains the interest rates and the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 2nd November, decided to keep the Official Bank Rate at 0.25% (in force since 3rd August this year) and to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively. It also revised upwards the growth and inflation forecasts for the UK.

The ECB maintains the interest rates and announces an extension of the monetary stimuli at least until December 2017

The Governing Council of the European Central Bank (ECB), on its meeting held on 8th December, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. The Council expects the ECB's official interest rates to remain at the current levels, or lower, over an extended period.

Table 1.1. Financial and monetary indicators

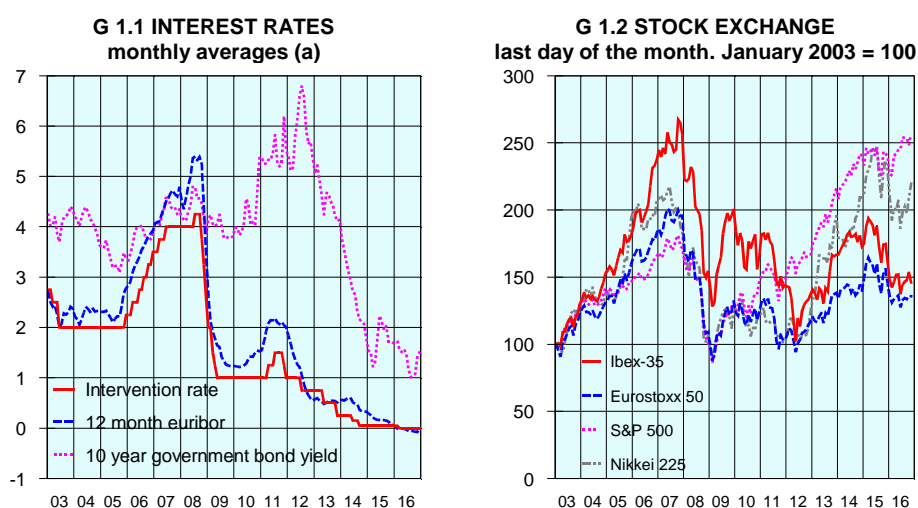
	2014	2015	2016					
			Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
A) Interest rates (percentages) (1)								
Official rates (2)								
Eurozone	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	0.21	-0.02	-0.27	-0.30	-0.30	-0.30	-0.31	-0.31
12 months	0.48	0.17	-0.03	-0.06	-0.05	-0.06	-0.07	-0.07
Debt market (3)								
3 years	0.92	0.36	0.10	-0.03	-0.06	-0.04	-0.05	0.11
5 years	1.46	0.81	0.46	0.28	0.11	0.12	0.12	0.40
10 years	2.71	1.74	1.48	1.17	1.01	1.04	1.07	1.42
Bank rates (3)								
Loans and credit. Synthetic rate	3.84	2.94	2.48	2.70	2.54	2.65	2.75	-
Mortgage loans (households)	3.11	2.50	2.32	2.36	2.37	2.37	2.31	-
Deposits. Synthetic rate	0.61	0.29	0.16	0.14	0.12	0.11	0.10	-
B) Spreads (basis points) (1)								
Spain-Germany 10 years	147	120	146	126	109	110	104	118
USA-Germany 10 years	131	159	163	159	164	168	172	172
C) Eurozone monetary aggregates (4)								
M1	8.10	10.60	8.70	8.60	8.70	8.40	7.90	-
M2	3.80	5.30	5.10	5.10	5.10	5.00	4.60	-
M3	3.80	4.70	5.10	5.00	5.00	5.10	4.40	-
D) Exchange rates (1)								
Dollar/euro	1.329	1.110	1.123	1.107	1.121	1.121	1.103	1.080
% (4)	-10.0	-11.8	0.1	0.7	0.7	-0.1	-1.9	0.6
Yen/euro	140.4	134.3	118.5	115.3	113.5	114.2	114.5	116.9
% (4)	3.8	-10.0	-14.6	-15.1	-17.2	-15.3	-15.1	-11.1
Yen/dollar	105.8	121.0	105.5	104.1	101.2	101.9	103.8	108.3
% (4)	15.4	2.0	-14.8	-15.6	-17.8	-15.2	-13.5	-11.6
Effective nominal euro rate	101.8	92.3	94.7	94.9	95.2	95.4	95.5	95.0
% (4)	-4.3	-6.6	2.6	3.9	2.3	1.6	2.0	4.2
E) Stock market indexes % (5)								
Madrid General Index	3.0	-7.4	-14.9	-10.5	-8.9	-8.4	-4.4	-9.4
IBEX 35	3.7	-7.2	-14.5	-10.0	-8.7	-8.0	-4.2	-9.0
Eurostoxx – 50	1.2	3.8	-12.3	-8.5	-7.5	-8.1	-6.5	-6.6
Dow Jones	7.5	-2.2	2.9	5.8	5.6	5.1	4.1	9.7
Standard & Poors 500	11.4	-0.7	2.7	6.3	6.2	6.1	4.0	7.6
Nikkei 225	7.1	9.1	-18.2	-12.9	-11.3	-13.6	-8.5	-3.8

(1) Average available daily data for each period. (2) At the end of each period. (3) Spanish market. (4) Year-on-year variation as %. For years. Dec./Dec. variation. (5) Percentage variation over the period of the year that has gone by.
Source: European Central Bank and Banco de España.

With regard to the non-conventional monetary policy measures, the Governing Council has decided to keep the purchases of its asset purchase programme at their current level of 80,000 million euros per month until the end of March next year. As of April 2017, net purchases will

amount to 60,000 million euros until the end of December 2017, or until a later date if necessary and, in any case, until the Governing Council observes a sustained adjustment of the inflation path compatible with its inflation target. If the economic outlook becomes less favourable during this period, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the inflation path, the Governing Council intends to increase the programme in terms of size and/or duration.

In order to ensure the continued smooth implementation of the asset purchases, the Governing Council decided to adjust the programme parameters as of 2017. On the one hand, the maturity range of the public debt purchase programme will be broadened by reducing the minimum remaining maturity for eligible securities from the current two years down to one year; and, on the other hand, the programme will allow, to the extent necessary, purchases of assets with a yield to maturity below the interest rate on the deposit facility, currently set at -0.40%.



(a) Except the corresponding ECB intervention rate at the end of each month. Source: Bolsa de Madrid, Nasdaq and Stoxx. Source: ECB and Banco de España.

The 12 month Euribor remains close to zero

In the interbank market of the Eurozone, interest rates extended the slightly downward path in October and November. More specifically, the 12 month Euribor stood at -0.080% on 30th November, compared to the -0.064% recorded at the end of September. This evolution is due to the fall of the risk premiums required in this market (the Euribor-OIS differential stood at 27 b.p. in late November, 6 b.p. below the figure registered on 30th September), partially offset by the expectations of an increase of the interest rates (the Overnight Index Swap, indicative of the rate expectations, stood at -0.34% in the 12-month Euribor, 4 b.p. above the one recorded at the end of September).

European public debt yields rebound in October and November

In the secondary public debt market, the uncertainty regarding a possible modification of the ECB asset purchase programme and the election results in the United States, which raised the inflation expectations, together with a possible increase of the interest rates by the Fed at the meeting to be held in December, edged upwards the yields of European public debt in October

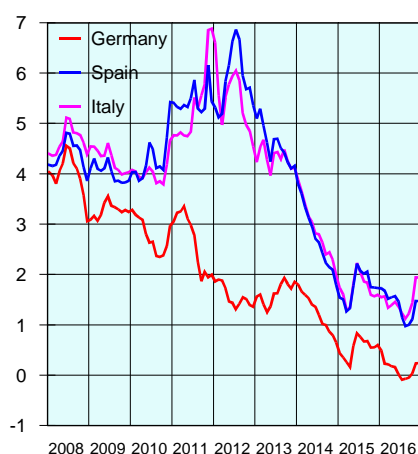
Table 1.2. Ten-years government bond yields
% and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15 (1)	Sep-30-16 (2)	Nov-30-16 (3)	Variation in bp		Dec-31-15 (4)	Sep-30-16 (5)	Nov-30-16 (6)	Variation in bp	
				Period (3)-(2)	Annual (3)-(1)				Period (6)-(5)	Annual (6)-(4)
Germany	0.63	-0.11	0.27	38	-36					
Holland	0.79	0.01	0.43	42	-36	16	12	16	4	0
Finland	0.92	0.03	0.44	41	-48	29	14	17	3	-12
Austria	0.91	0.11	0.55	44	-36	28	22	28	6	0
Belgium	0.97	0.16	0.65	49	-32	34	27	38	11	4
France	0.99	0.13	0.77	64	-22	36	24	50	26	14
Ireland	1.15	0.33	0.88	55	-27	52	44	61	17	9
Spain	1.80	0.90	1.56	66	-24	117	101	129	28	12
Italy	1.61	1.20	1.98	78	37	98	131	171	40	73
Portugal	2.54	3.35	3.72	37	118	191	346	345	-1	154
Greece	8.35	8.28	6.57	-171	-178	772	839	630	-209	-142

Source: Financial Times.

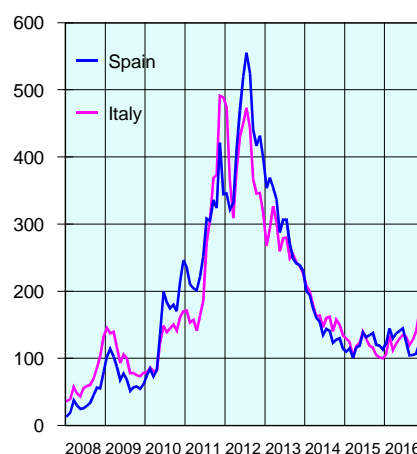
and November. As a result, the 10-year Spanish bond yield rebounded 66 b.p. compared to the one recorded on 30th September, when it registered record lows, to 1.56% on 30th November. On the other hand, the German bond yield rose 38 b.p. in the same period, up to 0.27%, the Spain-Germany differential standing at 129 b.p., 28 b.p. above the level recorded in late September. Meanwhile, the Spain-Italy differential stood at -42 b.p., compared to -30 b.p. recorded in late September.

G 1.3 PUBLIC DEBT YIELDS (a)
monthly data in percentage



For the 10-year Bond.
Source: Financial Times.

G 1.4 DIFFERENTIALS WITH GERMANY (a)
monthly data in basis points



For the 10-year Bond.
Source: Financial Times.

European stock indices increase in the two month period from October to November

In the stock markets, the main European indices rose in the period between late September and late November, in a context of high volatility. Thus, after rebounding slightly in mid-October due to the confirmation that at the Governing Council of the ECB meeting held on 20th October the possibility of changing the terms of the asset purchase programme had not been discussed, edged downwards in early November, due to the uncertainty regarding the elections in the United

States and the strong fall in oil prices. Later, some indices rose again in November, in a context of persistent uncertainty as a result of the British referendum, the result of the US elections, and the OPEC agreement at the end of November on the limitation of oil production. Thus, the Eurostoxx 50 index increased by 1.6% during the period between 30th September and 30th November (-6.6% compared to late last year). In Spain, the IBEX 35 recorded in that same period a 1% decrease, the cumulative reduction in comparison to 31st December 2015 reaching 9%. In the US market, the S&P 500 index rose by 1.4% during that period (7.6% compared to the end of 2015), driven by the publication of favourable macroeconomic indicators.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level	% Variation	
		Nov-30-16	Sep-30-16	Dec-31-15
Germany	DAX	10,640.30	1.2	-1.0
France	CAC 40	4,578.34	2.9	-1.3
Italy	FTSE MIB	16,930.41	3.2	-21.0
Spain	IBEX 35	8,688.20	-1.0	-9.0
Eurozone	EUROSTOXX 50	3,051.61	1.6	-6.6
United Kingdom	FTSE 100	6,783.79	-1.7	8.7
United States	S&P 500	2,198.81	1.4	7.6
Japan	NIKKEI 225	18,308.48	11.3	-3.8
China	SHANGHAI COMP	3,250.03	8.2	-8.2
Mexico	IPC	45,315.96	-4.1	5.4
Brazil	BOVESPA	61,906.36	6.1	42.8
Argentina	MERVAL	17,442.40	4.6	49.4

Source: Bolsa de Madrid. Infobolsa. Stoxx and Financial Times.

The euro depreciates against the dollar

With respect to the currency market, the higher expectations of an increase in the interest rates in the US at the Fed's next meeting to be held in December and the publication of favourable macroeconomic data drove upwards the exchange rate of the dollar against the euro in the two month period from October to November. As a result, the euro ended the period between 30th September and 30th November with a depreciation of 4.7%, reaching 1.0635 dollars, despite rebounding temporarily in early November in the context of electoral uncertainty in the United States. In October, the euro appreciated against the pound, in the context of the uncertainty with regards to the Brexit, but since early November the exchange rate of the euro edged downwards, after the announcement of the British High Court ruling that the Parliament must give its approval prior to the decision on the United Kingdom leaving the European Union. Thus, the euro ended the two month period from October to November with a drop of 1% against the pound, standing on 30th November at 0.8525 pounds. On the other hand, the euro appreciated by 6.5% against the yen, trading at the end of the 30th November session at 120.48 yen. Likewise, the euro depreciated by 0.7% in comparison to late September in nominal effective terms.

The M3 broad monetary aggregate slows down in October

On 28th November, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in October 2016. The M3 broad aggregate rose by 4.4% y-o-y, seven tenths less than in September, due to the slowdown of overnight deposits (8.7%, compared to the 9.3% registered in the previous month) and of marketable instruments (1.7%, compared to the 5.5% registered in the previous month), and to the larger decline in other short-term deposits (-1.5%,

compared to the -1% recorded in September). On the other hand, currency in circulation rose 4% y-o-y, three tenths more than in the previous month.

Table 1.4. Eurozone monetary aggregates

Monetary aggregates	October 2016 Balance (Billions €)	% Year-on-year variation		
		August 2016	September 2016	October 2016
1. Currency in circulation	1,072	3.6	3.7	4.0
2. Overnight deposits	5,972	9.7	9.3	8.7
M1 (= 1 + 2)	7,045	8.7	8.4	7.9
3. Other short-term deposits (= 3.1. + 3.2.)	3,519	-1.3	-1.0	-1.5
3.1. Term deposits up to two years	1,344	-4.1	-3.3	-4.7
3.2. Deposits redeemable at notice up to three months	2,175	0.5	0.5	0.6
M2 (= M1 + 3)	10,564	5.1	5.0	4.6
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	669	3.4	5.5	1.7
4.1. Repurchase agreements	74	-14.9	-13.9	-28.3
4.2. Money market funds shares units	504	4.7	8.1	6.9
4.3. Securities other than shares up to two years	90	18.5	13.6	12.5
M3 (= M2 + 4)	11,232	5.0	5.1	4.4

Source: European Central Bank.

Financing to the private sector in the Eurozone accelerates

The main counterpart to M3, the financing to the private sector in the Eurozone, grew by 2.3% y-o-y in October, three tenths more than in September, due to the higher growth of loans (2%, compared to the 1.9% registered in the previous month) and of securities other than shares (5.7%, a rate 2.2 points higher compared to the previous month). Within loans, those received by households increased by 1.9%, two tenths less in comparison to the previous month, and those received by non-financial corporations intensified the growth rate by three tenths, up to 1.7%.

Table 1.5. Financing to private sector in the Eurozone (1)

	October 2016 Balance (Billions €)	% Year-on-year variation		
		August 2016	September 2016	October 2016
Financing to the private sector	12,810	1.6	2.0	2.3
Loans	10,655	1.4	1.9	2.0
Households	5,389	2.0	2.1	1.9
<i>House purchases</i>	4,019	2.3	2.4	2.3
<i>Consumer credit</i>	612	3.5	3.4	3.5
<i>Other lending</i>	758	-0.7	-0.9	-1.1
Non-financial corporations	4,302	1.1	1.4	1.7
Insurance companies & pension funds	115	-14.1	-10.7	-7.8
Other financial intermediaries	851	1.2	5.2	5.7
Securities other than shares	1,376	4.1	3.5	5.7
Shares and other equities	778	-0.5	0.8	0.1

(1) Assets of the Monetary Financial Institutions (MFI).

Source: European Central Bank.

The financing stock to the private sector in Spain falls 0.3% y-o-y

According to the financing to the non-financial sectors in Spain data, published by the Bank of Spain on 1st December, the financing stock to the private non-financial sector decreased

by 0.3% y-o-y in October, the same as in the previous month. Financing received by firms rose by 0.8% y-o-y, two tenths more than in September, due to the acceleration of securities other than shares (3.2 points, up to 3.9%), partially offset by the lower growth in foreign loans (4.3%, compared to the 4.5% registered in the previous month). Bank loans fell by 1.4%, as in September. On the other hand, financing received by households recorded a y-o-y rate of -1.6%, the same figure as the one registered in the previous month. Bank loans for housing intensified the rate of decline by one tenth, down to -3.2%, and bank loans for purposes other than housing slowed down by three tenths, to 3.6%.

Table 1.6. Financing to non-financial sectors resident in Spain

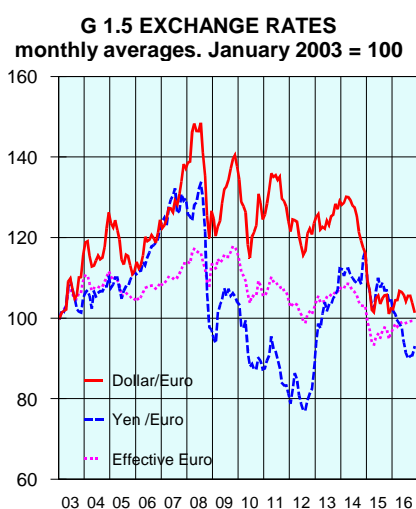
	October 2016	% Year-on-year variation		
	Balance (Billions €)	August 2016	September 2016	October 2016
Non-financial corporations and households	1,634	-0.6	-0.3	-0.3
Non-financial corporations	919	0.2	0.6	0.8
Bank loans	532	-1.3	-1.4	-1.4
Securities (1)	87	2.0	0.7	3.9
External loans	300	2.6	4.5	4.3
Households	714	-1.6	-1.6	-1.6
Bank loans. Housing	548	-3.2	-3.1	-3.2
Bank loans. Other	167	4.3	3.9	3.6
General Government	-	4.6	3.5	-
Total financing	-	1.4	1.2	-

(1) Other than shares.

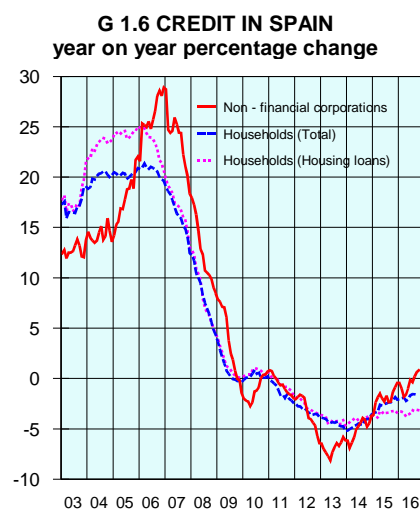
Source: Banco de España.

New loan and credit operations to households and SMEs slow down slightly in October

On the other hand, according to data published by the Bank of Spain on 30th November, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 9.9% y-o-y in October, 1.2 points less compared to September. This



Source: European Central Bank (ECB).



Source: Banco de España (BE).

slowdown is due to the lower increase of credits for house purchases (9.8% versus 13.3% in the previous month), and to the further decline recorded by credits for other purposes (-8.5% versus -7.6% in September), partially offset by the higher growth of credits for consumption (29.4%, a rate 2.6 points higher than that of the previous month). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose, in cumulative terms for the last twelve months up to October, by 3.9% y-o-y, 1.1 points less than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 30.3% y-o-y, 2.4 points less than in September.

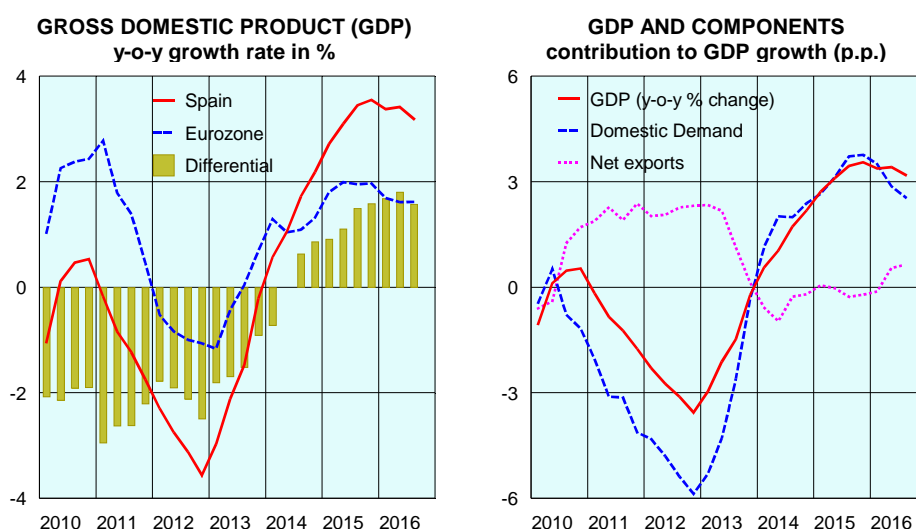
2. - DEMAND AND PRODUCTION

GDP records a y-o-y growth rate of 3.2% in the third quarter of 2016

In the third quarter of 2016, the Spanish economy continued the expansionary trend that started in mid-2013, accumulating three years of positive q-o-q growth, despite the persistence of high international uncertainty. The economic growth continued to be supported by the strength of private consumption, whose dynamism reflects the positive evolution of the labour market and the financing conditions, as well as the progress in redressing macroeconomic imbalances, in a context of a maintained ECB expansionary monetary policy, moderate growth in global demand and low oil prices.

According to the Quarterly National Accounts (QNA) data, published on 24th November by the INE, the GDP, in volume with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.7% in the third quarter of the year, one tenth lower compared to the figure registered in the three previous quarters, accumulating twelve consecutive quarters of positive rates. In y-o-y terms, the GDP growth stood at 3.2%, two tenths lower than that of the first two quarters of the year, ending the first nine months of 2016 with an average annual increase of 3.3%, versus the 3.2% registered in 2015 as a whole.

G 2.1 QUARTERLY NATIONAL ACCOUNTS Chain-linked volume. Seasonally and calendar adjusted data (sac)



Sources: INE (QNA-2010), seasonally and calendar adjusted data and Eurostat.

According to the Eurostat estimate, the GDP growth for the Eurozone (EMU-19) in the third quarter, stood at 0.3% q-o-q, so the growth differential favourable to Spain reached four tenths. In y-o-y terms, the GDP of the Eurozone maintained an increase of 1.7%, almost half that of Spain.

The growth composition improves

From the spending point of view, domestic demand continues to be the main growth driver, although its contribution to the GDP y-o-y growth moderated for the third consecutive quarter, standing at 2.6 percentage points, three tenths lower than the previous quarter. The contribution of net external demand was positive, as in the second quarter, reaching 0.6 percentage points, one tenth more than in the previous quarter, after three quarters of negative contributions. This is therefore a more balanced composition of growth, due to the gradual moderation of the private consumption and the business investments dynamism, and the greater contribution of net external demand.

The main international organisations revise upwards their growth forecasts for the Spanish economy, projecting a growth rate exceeding 3% in 2016

In the World Economic Outlook (WEO) for October, the International Monetary Fund (IMF) revised upwards its GDP growth forecast for the Spanish economy by half a point in 2016, up to 3.1% and one tenth that of 2017, up to 2.2% for 2016, identifying Spain as one of the economies with the highest growth rate among the advanced economies. Regarding growth composition, the IMF improved the domestic demand growth forecast for 2016 by two tenths, up to 3%, and maintained that of 2017, at 2.1%. Net external demand contributes by one percentage tenth to GDP growth this year and the next year, two tenths more than in the previous forecast for 2016 and one tenth less for 2017. Likewise, the IMF improved its unemployment rate forecast by three tenths for the coming two years, reaching 19.4% in 2016 and 18% in 2017.

In its Autumn Forecasts, the European Commission (EC) revised upwards the Spanish real GDP growth for 2016, estimating an increase of 3.2%, three tenths higher than the one forecast in July, and maintained a 2.3% increase for the following year. The EC expects growth to remain robust, with domestic demand as the main driver, although the composition will be more balanced, with positive contributions from the external sector in the forecast period. Specifically, the contribution of domestic demand to GDP growth in 2016 and 2017 falls slightly in comparison to what was forecast in July (2.9 p.p. and 2.1 p.p. in November, compared to the 3 p.p. and 2.3 p.p., respectively, in July). With regard to the external sector, the EC revises its contribution upwards, becoming positive throughout the forecast period (contributing by 0.2 p.p. to GDP growth each year), compared to the negative contribution of 0.4 points in 2016 and the null contribution in 2017, projected in July. On the other hand, with regard to the labour market, the EC reduces by two and one tenth its unemployment rate forecast for 2016 and 2017, down to 19.7%, and 18% respectively. The annual growth rate for job creation (in terms of full-time equivalent jobs) was revised upwards by two tenths in 2016, up to 2.8%, compared to what was forecast in July, foreseeing a 2.1% increase for 2017.

The OECD also revised its growth forecasts for the Spanish economy four tenths upwards in 2016, up to 3.2%, in comparison to those published in June, and has maintained the variation of the real GDP at 2.3% for 2017. The OECD expects the expansion of activity to continue, supported by domestic demand as the main growth driver, although at a slower pace, since some of the factors that have contributed to boost consumption, such as low oil prices and lower taxes, will lose strength. With regard to the labour market, the unemployment rate predicted by the

OECD in 2016 stands at 19.6%, two tenths lower than the figure foreseen in June, and its estimate for 2017 is reduced by seven tenths versus the previous projection, reaching 17.7%. The pace of job creation remains at 2.9% y-o-y for 2016, and rises by three tenths in 2017 compared to the figure forecast in June, up to 2.4%.

The most recent indicators of global activity point towards the continuation of the expansionary trend

The short-term indicators for the fourth quarter of the year point towards the continuation of the trend observed in the third quarter. The *Global Activity Composite PMI*, according to Markit, rose in October and November by 0.3 and 0.8 points respectively. On the other hand, the *Business Confidence Indicator*, published by the INE, rose 0.2% q-o-q in the fourth quarter (0.5% in the third quarter).

Amongst the qualitative indicators for the Spanish economy, the *Economic Sentiment Index* (ESI) published by the European Commission increased eight tenths in November compared to the previous month, up to 108.4 (average 1990-2015 = 100), the highest figure so far this year. This result is reflected in the improved confidence of all its components, except in retail, where it worsened. In the Eurozone, the ESI rose one tenth in November compared to the previous month, thus the favourable differential to Spain grew by seven tenths, up to 1.9 percentage points.

As for *large firm sales*, they moderated their growth pace in October, due to the slowdown of domestic sales, partially offset by the higher growth in exports. Thus, total sales, with deflated, fixed-sample and calendar adjusted data, recorded a y-o-y rate of 2.6% in October, half a point lower than in September, due to the slowdown of domestic sales (2.5%, compared to the 3.7% registered in the previous month) and the higher boost in exports (3.1%, compared to 0.9% in the previous month). On the other hand, imports recorded a y-o-y growth of 2.8% in October, two tenths lower than in the previous month.

2.1. - Domestic demand

Domestic demand continues to be the main driver of growth

In the third quarter of 2016, the composition of growth was more balanced, with a contribution of domestic demand to the GDP y-o-y growth of 2.6 percentage points, three tenths lower than that of the previous quarter, as a result of a gradual moderation of the private consumption and investment dynamism, and a higher positive contribution of net external demand, of 0.6 points, one tenth higher than the figure registered in the second quarter, after three quarters of negative contributions.

Private consumption dynamism moderates in the third quarter

Among the domestic demand components, final consumption expenditure of Households and Non-profit Institutions Serving Households (NPISHs), in volume, grew by 2.8% y-o-y in the third quarter, four tenths less than in the previous quarter. In q-o-q terms, the private consumption growth reached 0.6%, one tenth lower in comparison to the figure registered in the previous quarter.

Private consumption expenditure continued to grow in the third quarter, in nominal terms, at a lower rate than that of the compensation of employees (2.6% and 3.2% y-o-y, respectively,

with gross series), what, in absence of the complete Accounts for the Institutional Sectors, could point to a household savings increase.

Table 2.1. **Quarterly National Accounts**
Chain-linked volume base 2010; corrected data from seasonal and calendar effects

	2014	2015	2016(4)	year-on-year change				q-o-q change	
				IV-15	I-16	II-16	III-16	II-16	III-16
DEMAND									
Domestic consumption	1.1	2.6	2.7	3.1	3.1	2.6	2.4	0.3	0.7
- Private consumption	1.6	2.9	3.2	3.2	3.4	3.2	2.8	0.7	0.6
- Public consumption	-0.3	2.0	1.4	2.7	2.0	0.8	1.4	-0.6	1.0
Gross fixed capital investment	3.8	6.0	3.8	6.4	4.8	3.6	3.1	1.1	0.1
- Equipment (1)	8.1	8.8	6.2	9.6	7.6	6.1	4.9	1.9	0.3
- Construction	1.2	4.9	2.4	5.0	3.1	2.0	2.0	0.5	0.2
- Intellectual Property Products	3.5	3.6	3.4	4.0	4.2	3.5	2.6	1.3	-0.7
Change in inventories (2)	0.3	0.1	0.1	0.1	0.2	0.1	0.0	0.1	0.0
Domestic demand (2)	1.9	3.3	3.0	3.8	3.5	2.9	2.6	0.4	0.6
Exports of goods and services	4.2	4.9	4.4	5.0	4.1	6.4	2.8	3.1	-1.3
- Goods (fob)	3.6	4.4	3.7	4.5	2.6	5.9	2.5	3.8	-0.6
- Services	6.0	6.0	6.1	6.0	7.6	7.5	3.3	1.5	-2.8
Imports of goods and services	6.5	5.6	3.6	6.1	4.8	5.1	0.9	2.0	-1.8
- Goods (fob)	6.3	5.8	2.3	5.6	3.6	4.6	-1.2	2.2	-3.3
- Services	7.1	4.6	9.6	8.1	10.6	7.3	11.0	1.2	5.0
Net foreign balance (2)	-0.5	-0.1	0.4	-0.2	-0.1	0.5	0.6	0.4	0.1
GROSS VALUE ADDED									
Agriculture (3)	-1.6	-2.9	3.0	3.9	4.3	2.4	2.5	-1.9	0.2
Industry. Total	1.8	5.5	2.7	4.9	3.0	3.1	1.9	1.0	0.1
- Manufacturing	3.1	7.0	3.9	7.0	4.6	4.3	2.9	1.2	0.4
Construction	-1.2	0.2	2.0	1.1	1.7	1.6	2.7	1.0	0.5
Services	1.4	2.6	3.4	2.9	3.4	3.6	3.4	0.8	0.8
GDP m.p.	1.4	3.2	3.3	3.6	3.4	3.4	3.2	0.8	0.7
GDP at current prices	1.1	3.7	3.6	4.0	3.6	3.9	3.5	1.2	0.6

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing. (4) Period January-September.

Source: INE (CNE-2010).

Households deleveraging continues

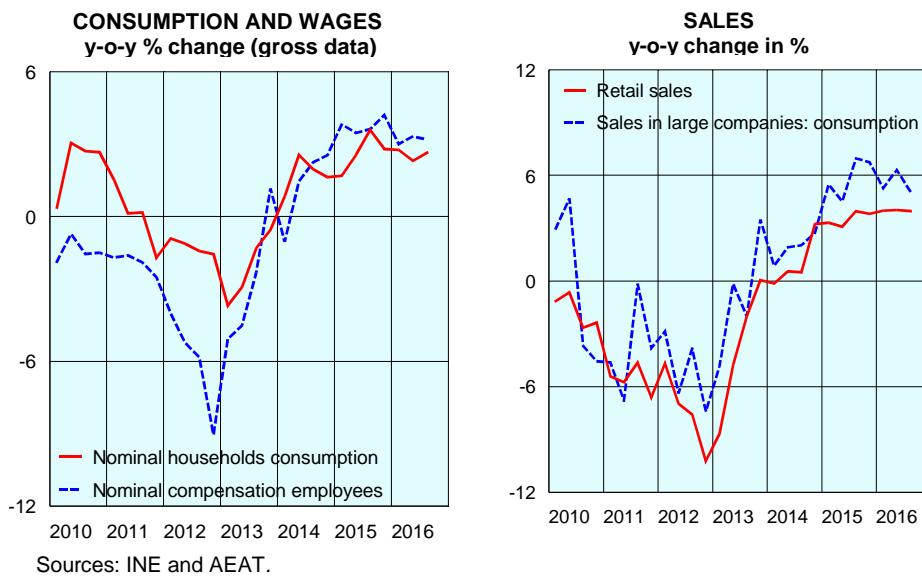
With regard to household indebtedness, the downward trend started in 2010 continued, falling from 70.9% of GDP in the second quarter of 2015 to 66.7% in the same quarter of 2016, thus reflecting the continuation of the deleveraging process of the sector.

The most recent indicators point to the continuation of the expansionary trend of private consumption

Among the qualitative indicators, the significant progress of the *Consumer Confidence Indicator* (CCI), published by the CIS, stands out, as it increased 8.7 points in November

compared to the previous month, reaching 99.4, the highest level so far this year. This significant rise in the CCI, after two months of declines, was due to the evolution of its two components, current situation and expectations, which increased by 5.9 and 11.5 points, respectively, up to 88.5 and 110.2. The marked improvement of the general economic situation assessment and the labour market (current and expected) is especially relevant. The *consumer confidence* indicator published by the European Commission points in the same direction, rising 2.6 points in November, up to -2.2.

G 2.2 PRIVATE CONSUMPTION INDICATORS



On the other hand, among the quantitative indicators, *retail sales*, with calendar and price adjusted data, experienced a y-o-y increase of 2.2% in October, one point lower than in the previous month. By groups, this slowdown is explained both by the food component, which recorded an increase of 1.3%, seven tenths lower than that of the previous month, and by the non-food component, which rose by 3.4%, six tenths less than in September. Likewise, *domestic sales in large companies of consumer goods*, with deflated, fixed-sample and calendar adjusted data, intensified the growth rate by seven tenths in October, up to 6.3% y-o-y, while those regarding to *services* grew at a slower rate (4.1% versus 7.4% recorded in September). Lastly, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), *passenger car registrations* grew by 13.5% y-o-y in November, resuming the path of positive double-digit rates interrupted in October.

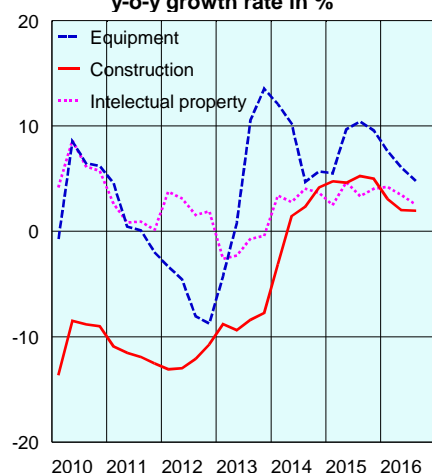
As for the Final Consumption Expenditure of the General Government, it accelerated six tenths in the third quarter, up to 1.4% y-o-y, according to QNA figures. In q-o-q terms, public consumption rose by 1%, following the 0.6% decline experienced in the previous quarter.

Investment grows sharply in the third quarter of 2016...

With regard to investment, the *Gross Fixed Capital Formation (GFCF)* grew by 3.1% y-o-y in the third quarter of the year, due to the dynamism of equipment investment (4.9%) and the expansionary trend, both for construction investment (2%), and intellectual property products (2.6%). In the first three quarters of the year as a whole, the GFCF increased by 3.8% on annual average, compared to the 6% registered in 2015.

The conditions remain favourable for investment decisions, given the deleveraging of companies, the low interest rates, the strength of demand, the use of the production capacity and the moderate growth of the world economy. In this sense, financing to non-financial corporations resident in Spain rose by 0.8% y-o-y in October, a rate two tenths higher than that of the previous month.

G 2.3 GROSS FIXED CAPITAL FORMATION
y-o-y growth rate in %



G 2.4 GFCF IN CONSTRUCTION
y-o-y growth rate in %



Source: INE (QNA-2010), seasonally and calendar adjusted data.

...mainly due to the dynamism of investment in equipment goods

According to QNA figures, the *equipment investment* moderated its pace of advance between July and September 2016 by 1.6 points, to 0.3% q-o-q. In y-o-y terms, the increase reached 4.9%, 1.2 points lower than the figure registered in the second quarter. This y-o-y slowdown is due to the lower dynamism of investment in other machinery, which went from a growth of 5.4% y-o-y in the second quarter of the year, down to 2.7% in the third quarter, partially offset by the acceleration of investment in transport equipment. The latter y-o-y rate reached 10.2%, 2.4 points higher than the preceding quarter.

Likewise, the most recent indicators of equipment investment point, in general, to a less expansionary trend in the last quarter of the year. Thus, the *indicator of investment goods climate* showed a positive balance in the period from October to November (2.4 points), 3.2 points lower than in the third quarter and the *capital goods productive capacity utilisation* fell almost two points, reaching 81.7% in the fourth quarter. On the other hand, *equipment and software sales in large companies* accelerated seven points in October, up to 7.5%.

In the third quarter of 2016, *construction investment* maintained the y-o-y growth at 2% for the second consecutive quarter. By components, the residential segment and other constructions registered y-o-y variations of 2.6% and 1.4%, respectively, one tenth lower, both, than the figures registered in the previous quarter. In this context, according to figures from the Bank of Spain, *financing to households for housing* intensified the fall by one tenth, to record a y-o-y rate of -3.2% in October.

The short-term indicators related to residential investment provides mixed signals. Thus, the number of *housing sales* continued to grow strongly in September, although more moderately

than in the previous month, registering a y-o-y increase of 13.2%, 7.1 points lower in comparison to August. The number of *mortgages on housing* accelerated by 3.6 points in September compared to the previous month, with its y-o-y variation rate standing at 10%. In parallel, the *housing prices*, according to statistics of the Ministry of Public Works, continued the y-o-y raising path that begun at the beginning of last year, with a 1.6% y-o-y increase of the price of private housing in the third quarter (2% in the second quarter), a rate that rises to 1.8% in real terms.

Table 2.2 Domestic demand indicators

Year-on-year change or balances in %

	2015	2016(1)	2015		2016			Latest Data
			IV	I	II	III	IV(1)	
Households & bussiness financing (2)	-3.4	-2.2	-2.7	-2.6	-2.0	-1.9	-2.4	Oct.16
<u>Private Consumption</u>								
Composite Consumption Indicator (3)	4.7	3.9	4.7	3.8	4.3	3.6	-	Q.III.16
Consumer Goods. Apparent cons. (3)	6.7	3.2	7.4	6.5	2.1	1.0	-	Sep.16
IPI consumer goods (adjusted)	1.4	2.1	3.6	3.0	2.4	1.5	0.3	Oct.16
Consumer goods imports (vol.)	6.9	7.4	8.1	8.6	9.1	4.6	-	Sep.16
Retail sales index (4)	3.0	3.7	3.3	3.8	3.8	3.9	2.4	Oct.16
Passenger car registrations	20.9	11.1	16.6	6.9	17.2	9.7	8.8	Nov.16
Real wages (5)	4.0	3.9	3.9	3.9	4.4	3.5	-	Q.III.16
Consumer goods. Capacity utiliz. (%)	73.6	75.6	74.0	75.7	75.4	74.6	76.6	Q.IV.16
Consumer confide. indicator (balances)	0.3	-3.9	1.6	-2.5	-3.2	-6.1	-3.5	Nov.16
Large firms sales. Consumption (6)	6.0	5.6	6.7	5.3	6.3	5.1	5.6	Oct.16
Households financing (2)	-3.2	-2.0	-2.8	-2.3	-1.6	-1.8	-2.7	Oct.16
<u>Equipment Investment</u>								
Composite Equipment Indicator (3)	14.1	6.3	12.7	6.8	5.3	6.8	-	Q.III.16
Capital Goods. Apparent cons.(3)	7.8	4.8	6.9	6.3	4.1	4.0	-	Sep.16
IPI consumer goods (adjusted)	7.4	4.0	10.4	8.1	4.9	1.5	-2.9	Oct.16
Capital goods imports (vol.)	14.4	4.9	11.9	1.6	10.9	2.1	-	Sep.16
Corporations financing (2)	-2.0	1.3	-0.2	1.7	2.2	1.1	-1.8	Oct.16
Truck registrations	35.6	11.0	31.1	11.0	17.9	10.6	-6.0	Oct.16
Capital goods. Capacity utilization (%)	79.9	81.7	80.8	81.5	80.2	83.6	81.7	Q.IV.16
Large firms sales. Capital (6)	4.8	3.6	4.5	3.6	4.5	1.2	7.5	Oct.16

(1) Available period data. (2) Deflated by CPI. (3) Adjusted for seasonal, calendar and outliers effects. (4) Adjusted for calendar effects; at constant prices. (5) QNA series; seasonal and calendar effects adjusted divided by household consumption deflator. (6) Calendar adjusted; deflated & fixed sample.

Sources: SGACPE (MEIC), BE, INE, DA, ANFAC, MESS, CE and AEAT.

The expansionary trend of productive activity of non-financial corporations continues

The Quarterly Central Balance Sheet data published by the Bank of Spain, for the third quarter of 2016, highlight the continuation of the expansionary trend of the productive activity of non-financial corporations included in the sample. Thus, the non-financial companies' nominal gross value added rose by 4.9% y-o-y, almost one point more than in the previous quarter. The acceleration of the activity, combined with the fall in personnel expenses (-0.6% compared to the 1.2% of the previous quarter) explains the rebound of the gross operating profit, which rose by 10.2% (6.9% in the second quarter). This favourable evolution, together with the drop in financial

expenses, (-9% versus -9.8% in the previous quarter), resulted in a sharp growth of the net ordinary result of 39.5% (17.4% in the second quarter).

The ordinary return on net assets for all the companies in the sample continued the upward trend in the third quarter of 2016, up to 4.7%, two tenths higher than the figure recorded in the previous quarter. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) fell by two tenths, down to 2.6%, so the differential between them (which is an indicator of companies' economic incentives to invest) rose four tenths, up to 2.1%.

2.2.- Foreign demand

The external sector contributes with six tenths to GDP y-o-y growth in the third quarter

In the third quarter of 2016, according to QNA figures, the external sector contributed with one tenth to the GDP q-o-q variation, after a contribution of four tenths in the previous quarter, as a result of a decrease in goods and services exports (-1.3% q-o-q) below that of imports (-1.8%), after these flows registered rates of 3.1% and 2%, respectively, in the second quarter of the year. In y-o-y terms, the net external demand contributed with six tenths to the GDP variation in the third quarter of 2016, one tenth more than in the second quarter, because exports slowed down less than imports, 3.6 points (from 6.4% down to 2.8%) and 4.2 points (from 5.1% to 0.9%), respectively.

Compared with the major economies of the European Union, the q-o-q rate of Spanish real exports (-1.3%) was lower than that of Germany (-0.4%), France (0.6%) and the United Kingdom (0.7%), while the y-o-y rate of exports from Spain (2.8%) was higher than that of Germany (1.5%) and France (1.1%) and lower than that of the United Kingdom (4.1%).

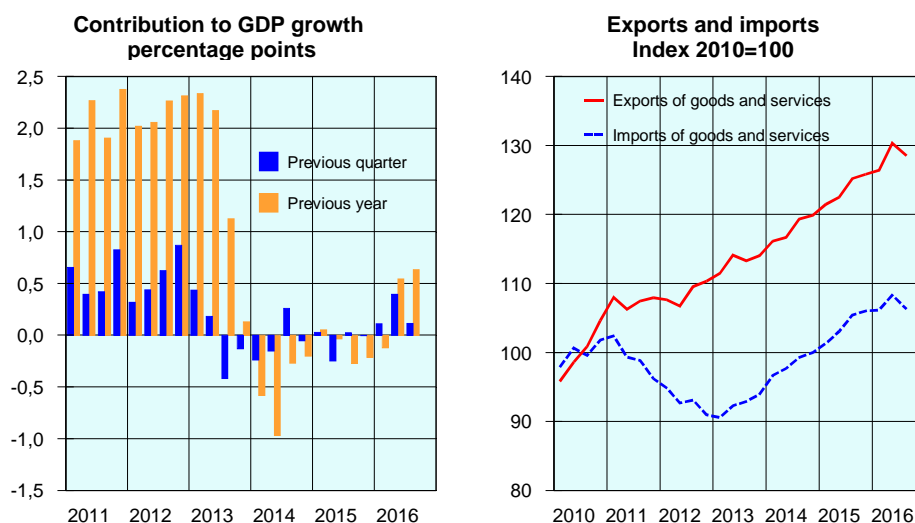
Real exports of goods and services slow down

Real exports of goods and services moderated their growth rate in the third quarter of 2016, after the acceleration observed in the previous quarter, in a context in which a clear and widespread recovery is not being observed in the evolution of the activity of the main trading partners and the major emerging economies.

In y-o-y terms, exports of goods and services increased by 2.8% in the third quarter of 2016, compared to the 6.4% registered in the second quarter, with increases of 2.5% in goods and of 3.3% in services, rates 3.4 and 4.3 points lower than those registered in the previous period. In q-o-q terms, exports fell by 1.3%, compared to the 3.1% increase recorded in the previous period, due to the falls of goods and services exports of 0.6% and 2.8%, respectively, after the rises of 3.8% and 1.5% recorded in the previous quarter.

In the third quarter of 2016, the evolution of the activity of Spain's main trading partners was uneven. The GDP q-o-q growth rate intensified three tenths in France (0.2%), two in Italy (0.3%) and four in the United States (0.8%); while it moderated two tenths in Germany (0.2%) and in the United Kingdom (0.5%). In the major emerging economies, different trends were observed: acceleration of nine tenths in Mexico and Taiwan (1%); slight moderation of one tenth in China and Korea (1.8% and 0.7%); moderation of eight tenths in Indonesia (3.2%); and negative growth in Brazil and India (-0.8% and -0.2%)

G 2.5 EXTERNAL SECTOR



Source: INE.

Competitiveness improves against the developed countries

On the other hand, in the third quarter of 2016, the competitiveness trend index based on consumer prices against the developed countries, prepared by the Secretary of State for Trade, reported a gain of competitiveness of 0.8% y-o-y, due to a 0.9% decline in relative prices, partially offset by the 0.1% appreciation of the nominal effective exchange rate. Regarding the European Union, a competitiveness loss of 1% was recorded after eleven months of gains, due to the appreciation in the nominal effective exchange rate (1.7%), partially offset by the fall in the relative consumer prices index (-0.7%). Finally, a competitiveness loss of 0.8% with regard to the BRICS countries was recorded, resulting from a significant appreciation of the nominal exchange rate index (4.7%, which contrasts with the 2.8% depreciation registered in the third quarter of 2015), partially offset by a decline of 3.7% in the relative prices index.

Real exports of goods gain market share

In this context, the real exports of goods y-o-y growth rate in the third quarter of 2016 (2.5%) favourably contrasts with the evolution experienced by the world trade in goods (0.8% according to the Central Planning Bureau of the Netherlands), resulting in a real market share gain of 2.75% y-o-y in the first nine months of 2016, reaching 1.95%.

According to *Customs* figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) recorded a negative rate in September (-1.4%), due to the negative contribution from all areas, except Latin America, especially from the member countries of the European Union, which account for two thirds of the total exports.

In y-o-y terms, real exports of goods remained stable in the third quarter of 2016, following the 7.1% increase registered in the second quarter. By type of product the loss of momentum of the volume of exports of all groups except energy intermediate goods was noticeable in the third quarter of 2016, which moderated their decline by more than ten percentage

points, to -16.3% y-o-y. Among the other product, exports of consumer goods slowed down, both for food consumption (0.5%, five points lower than the second quarter) and for non-food consumption (1.6%, compared to the 16.7% registered in the previous quarter), and exports of non-energy intermediate goods moderated their rise by 2.7 points, to 1.1%. Finally, capital goods recorded a y-o-y rate of -4.5%, compared to the 16.4% recorded in the previous quarter.

Within the non-food consumer goods group, car exports decreased by 0.4% y-o-y, after the 19.7% growth registered in the second quarter. Its contribution to the growth of total exports was null, versus the two percentage points of the previous quarter.

Table 2.3 Foreign trade by category of goods, volume

	Weight in Total	Year-on-year change (%)					Contribution to growth		
		2015		2016			2016		
		III	IV	I	II	III	I	II	III
Total exports	100.0	3.4	3.7	2.5	7.1	0.0	2.5	7.1	0.0
<i>Consumer goods</i>	38.1	10.5	11.2	5.5	12.7	1.2	2.0	4.3	0.4
Foods	13.7	9.0	4.4	2.8	5.5	0.5	0.4	0.7	0.1
Others goods	24.5	11.1	15.5	6.9	16.7	1.6	1.6	3.6	0.4
Cars	11.9	21.9	15.3	4.7	19.7	-0.4	0.5	2.0	0.0
<i>Capital goods</i>	8.6	-1.3	7.5	2.8	16.4	-4.5	0.3	1.7	-0.5
Excl. heavy trans. equipment	8.4	2.5	7.8	3.0	16.9	-3.8	0.3	1.7	-0.4
<i>Intermediate goods</i>	53.2	-0.1	-1.9	0.1	1.8	-0.1	0.2	1.1	0.0
Energy	3.6	-14.0	-12.4	-12.7	-27.0	-16.3	-0.3	-1.0	-0.6
Non-energy	49.6	1.2	-1.1	0.8	3.8	1.1	0.5	2.1	0.6
Total imports	100.0	7.1	7.3	4.6	4.7	-1.1	4.6	4.7	-1.1
<i>Consumer goods</i>	27.0	6.3	8.1	8.6	9.1	4.6	2.1	2.2	1.2
Foods	6.8	3.6	6.4	8.5	13.3	10.0	0.5	0.8	0.6
Others goods	20.2	7.2	8.7	8.5	7.6	2.6	1.7	1.4	0.5
Cars	5.3	16.5	12.5	8.0	2.5	-1.6	0.4	0.1	-0.1
<i>Capital goods</i>	8.2	18.9	11.9	1.6	10.9	2.1	0.2	1.0	0.2
Excl. heavy trans. equipment	8.1	19.0	11.5	1.3	10.9	1.7	0.1	1.0	0.2
<i>Intermediate goods</i>	64.8	6.1	6.3	3.2	2.2	-4.0	2.3	1.5	-2.5
Energy	14.1	-2.0	-7.0	-4.0	-11.2	-11.9	-0.5	-1.4	-1.6
Non- energy	50.7	8.5	10.0	4.9	5.4	-1.9	2.7	2.9	-0.9

Sources: Customs and SGACPE.

Exports of goods to the Eurozone stabilise in the third quarter

According to Customs data, in the third quarter of 2016, exports in volume to the European Union (EU) and the Eurozone stabilised in y-o-y terms, after recording rates of 8.1% and 7.7% in the previous quarter. The nominal sale growths to Italy and the decline of those to France and new EU partners stood out. Exports to the rest of the world fell slightly (-0.1%), following the 5.2% increase registered in the previous quarter. The breakdown by geographic destination outside the European Union reveals growths of a certain size of nominal sales to China, India and the New Industrial Economies of Asia, while those to the United States, Russia,

sub-Saharan Africa and Latin America, registered double-digit falls, especially exports to Brazil, Argentina and Venezuela. Consequently, contributions to the total increase in exports to the EU and the rest of the world were null in the third quarter of 2016, compared to the contributions of 5.3 and 1.8 points registered in the second quarter.

Spending in final consumption of non-residents in the economic territory slows down

According to QNA figures, the *expenditure of non-resident households* in the economic territory, in volume, decreased by 0.5% q-o-q in the third quarter of 2016, versus the 2.7% rise recorded in the previous quarter, and increased by 8.2% y-o-y, 1.5 percentage points less than in the previous quarter. For the fourth quarter of 2016, the main indicators of foreign tourism, - inbound tourists and foreign overnight stays in domestic hotels - show favourable signals, with y-o-y growth rates in October of 11% and 7.2% respectively.

For the third quarter of the year, *real exports of non-tourism services* fell by 4.3% q-o-q, following the 0.7% increase registered in the second quarter. In y-o-y terms, they registered a slight increase of 0.1%, six points lower than the figure recorded in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the second quarter of 2016, the services with greater contribution to the nominal growth of exports were business services (2.9 p.p.), transport (1.8 p.p.) and telecom, computer and information technology services (1.0 p.p.), while financial services (-0.4 p.p.) and insurances and pensions (0.3 p.p.) contributed negatively.

Table 2.4 Foreign trade by group of countries, volume

	Weight in Total	Year-on-year change (%)					Contribution to growth		
		2015		2016			2016		
		2015	III	IV	I	II	III	I	II
Total exports	100.0	3.4	3.7	2.5	7.1	0.0	2.5	7.1	0.0
<i>EU</i>	64.8	5.3	5.2	4.8	8.1	0.0	3.2	5.3	0.0
Euro-area	50.4	5.0	3.8	5.1	7.7	0.0	2.7	4.0	0.0
<i>Non-EU</i>	35.2	-0.2	0.9	-2.2	5.2	-0.1	-0.7	1.8	0.0
USA	4.6	15.1	-2.4	7.0	13.6	-9.8	0.3	0.6	-0.5
Latin America	6.1	12.8	4.3	-10.2	-4.2	-7.3	-0.6	-0.2	-0.5
China	1.8	11.6	17.0	13.9	28.3	9.9	0.2	0.5	0.2
Other countries (1)	11.0	-1.0	6.5	2.8	7.1	3.7	0.3	0.8	0.4
Total imports	100.0	7.1	7.3	4.6	4.7	-1.1	4.6	4.7	-1.1
<i>EU</i>	56.0	7.0	8.9	2.7	3.7	-0.5	1.6	2.2	-0.3
Euro-area	44.5	7.2	8.8	2.1	3.7	2.0	1.0	1.7	0.9
<i>Non-EU</i>	44.0	7.2	4.9	7.2	6.2	-1.8	3.0	2.5	-0.8
USA	4.7	23.5	14.3	5.3	-1.0	-10.7	0.3	-0.1	-0.6
Latin America	5.6	-9.4	-13.1	-11.3	-5.9	-1.3	-0.6	-0.3	-0.1
China	8.6	27.3	23.0	13.0	17.4	3.0	1.1	1.2	0.3
Other countries (1)	10.3	-2.2	5.8	10.8	9.2	-0.8	1.0	0.8	-0.1

(1) Maghreb, Middle East and Russia.

Sources: Customs and SGACPE.

Real imports of goods fall

Furthermore, *goods and services imports*, in real terms and according to QNA figures, fell by 1.8% in the third quarter of 2016, compared to the previous quarter, versus the 2% increase recorded in the second quarter. By components, goods imports fell by 3.3% versus the previous quarter and services imports rose by 5% in comparison to the rates of 2.2% and 1.2% of the previous quarter.

According to *Customs* figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) became negative in September (-1.3%), following the 0.8% recorded in June, reflecting a negative contribution of imports from the EU and non-OECD countries and, by products, a negative contribution of non-food consumer goods, capital goods and non-energy intermediate goods.

In y-o-y terms and according to Customs figures, *imports of goods* in volume, deflated by unit value indices, fell by 1.1% in the third quarter of 2016, in contrast to the 4.7% increase in the second quarter.

By type of product and in volume, in the third quarter of 2016 the positive contribution of consumer goods (to 1.2 points) and capital goods (to 0.2 points) decreased, while the imports of intermediate goods recorded a negative contribution (down to -2.5 points). Among consumer goods, food maintained a high growth rate (10%), while the most important component of non-food consumption, i.e. passenger cars, fell by 1.6% y-o-y, prolonging the gradual moderation registered since the fourth quarter of 2015.

By geographical areas, real imports of goods from the European Union slowed down 0.5% y-o-y in the third quarter of 2016, after the 3.7% increase registered in the previous quarter and those from the Eurozone 1.7 percentage points, down to 2%. On the other hand, imports from outside the EU fell from 6.2% in the second quarter to 1.8% in the third quarter. In the breakdown by geographical origin, and in nominal terms, the growth of purchases from Japan, India and Argentina are remarkable. On the other hand, those from the United Kingdom, United States, Russia, Maghreb, sub-Saharan Africa and, above all, Venezuela fell sharply.

G 2.6 EXPORTS AND IMPORTS OF GOODS AND SERVICES
percentage of GDP



Source: INE.

Tourism import growth rebounds

According to QNA figures, in the third quarter of 2016, *real spending of households resident abroad* rose by 11.5% q-o-q, following the 2.6% rise observed in the second quarter. On the other hand, *imports of non-tourism services* increased 2.8% q-o-q, following the 0.7% rise registered in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate were business (3.1%) and intellectual property (0.8%).

The surplus of the balance of goods and services increases

In the third quarter of 2016, the surplus of the goods and services balance, calculated with gross data at current QNA prices, stood at 4.3% of the quarterly GDP, half a point more than in the previous year, due to the lower deficit of goods (-1.6% of GDP compared to the -2.6% registered a year earlier), partially offset by the lower surplus of services (5.9% of GDP, five tenths lower than in the same period last year). Within the services sector, the tourism net revenue surplus (4.1% of GDP) fell one tenth, compared to the percentage recorded in the third quarter of 2015, while the non-tourism services (1.9% of GDP) fell three tenths.

2.3.- Productive activity

Activity increases in all productive sectors

From the supply point of view, the major branches of activity registered an uneven performance in the third quarter of the year. Thus, the Gross Value Added (GVA) of the construction sector accelerated 1.1 points, up to 2.7% y-o-y, while the GVA of the industry and services sectors moderated the pace of advance by 1.2 points and two tenths, down to 1.9% and 3.4%, respectively. On the other hand, the GVA of agriculture, farming, forestry and fishing rose 2.5%, one tenth more than in the previous quarter.

Table 2.5 **Employment and productivity**
Year-on-year change (%)

	2014	2015	2016(4)	2015			2016		
				II	III	IV	I	II	III
<u>EMPLOYMENT (1)</u>									
Agriculture (2)	0.8	1.2	2.7	1.1	4.3	4.6	5.1	1.2	1.8
Industry total	-1.2	1.6	1.6	2.0	1.8	1.4	1.8	1.3	1.8
Manufacturing	-1.3	2.0	2.2	2.3	2.2	1.9	2.5	1.8	2.2
Construction	-3.1	6.6	2.2	7.5	5.8	5.2	1.5	1.5	3.5
Services	1.8	3.0	3.2	3.0	3.0	3.0	3.3	3.2	3.2
Total	1.1	3.0	2.9	3.0	3.0	3.0	3.1	2.8	2.9
<u>PRODUCTIVITY (3)</u>									
Agriculture (2)	-2.3	-4.1	0.3	-5.3	-8.3	-0.8	-0.8	1.2	0.7
Industry total	3.1	3.8	1.0	3.5	4.3	3.5	1.2	1.8	0.1
Manufacturing	4.4	4.9	1.7	4.5	5.6	5.0	2.1	2.4	0.6
Construction	1.9	-6.1	-0.2	-7.3	-5.3	-3.9	0.2	0.1	-0.8
Services	-0.4	-0.4	0.2	-0.4	-0.1	-0.1	0.0	0.4	0.2
GDP per employee	0.3	0.2	0.4	0.1	0.4	0.6	0.3	0.6	0.2

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) Period Jan-Sep.

Source: INE (CNE-2010).

In q-o-q terms, the largest increase in the GVA corresponded to the services sector (0.8%, as in the previous quarter), followed by construction, whose growth was 0.5%, half that of the previous quarter. The industry GVA virtually stabilised (0.1%), after the 1% rise registered in the previous quarter, and the GVA of agriculture grew slightly, 0.2%, after the decrease close to 2% of the second quarter.

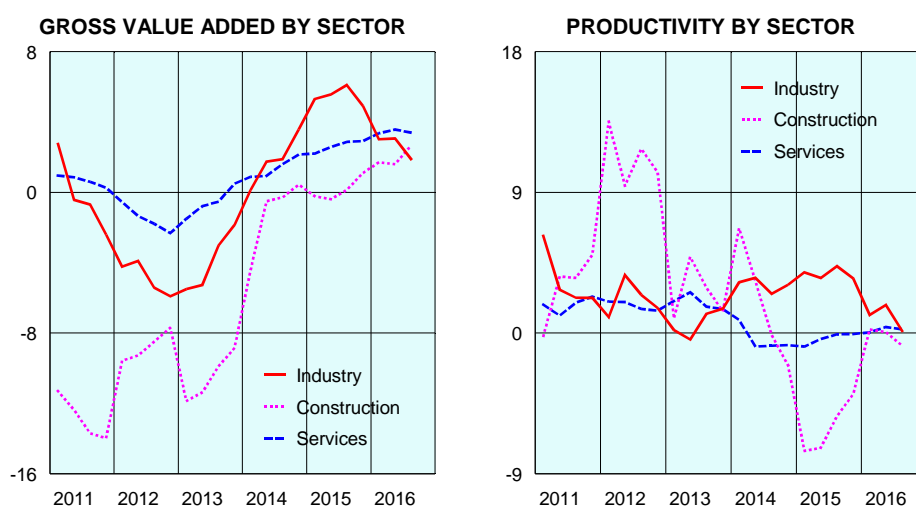
The *Turnover Index in Industry (ICNI)*, with calendar adjusted data, fell by 0.2% in September, compared to the 3.4% increase recorded in August. All its components decreased, except consumer goods, which increased. On the other hand, the *Industry New Orders Index*, leading indicator of the activity in the sector, accelerated 1.6 points in September, up to 1.8% y-o-y, with calendar adjusted data, due to the rebound of equipment goods and a lower energy fall).

Industry activity indicators show mixed signals in the fourth quarter

The industrial sector indicators for the fourth quarter of 2016 showed a less expansionary trend of the activity in the sector. Thus, the *Industrial Production Index (IPI)*, with calendar and seasonally adjusted data, recorded a y-o-y growth rate of 0.5% in October, one tenth less than in the previous month, due to the slowdown of intermediate goods (almost two points, to register a null variation), partially offset by the acceleration of energy (3.5 points, up to 6.2%) and by a lower fall of equipment goods (-2.4%, versus the -2.9% registered in September). On the other hand, consumer goods maintained their y-o-y growth rate unchanged at 0.4%. From these results, the filtered IPI ended the first ten months of the year with a y-o-y increase of 1.8%, 1.4 points lower than in 2015 as a whole (3.2%).

Conversely, the *manufacturing PMI* continued in November the upward trend started in September, rising to 54.5, the highest level of the last ten months, and 1.2 points higher than in the previous month, as a result of the increase in production and, to a greater extent, in new orders, which rose at higher rates.

G 2.7 GROSS VALUE ADDED AND PRODUCTIVITY BY SECTOR year-on-year growth rate in %



Source: INE (QNA-2010), seasonally and calendar adjusted data.

Table 2.6 Activity and Production Indicators

Year-on-year change or balances in %

INDICATORS	2015	2016(1)	2015	2016				Latest data
			IV	I	II	III	IV(1)	
Composite Activity Indicator (2)	2.9	2.7	3.2	2.9	2.6	2.7	-	Q.III.16
Electric power consumption (3)	1.8	0.0	2.5	-1.0	0.9	-0.2	1.0	Nov.16
Non energy imports (vol.)	8.6	4.5	9.6	5.9	7.1	0.7	-	Sep.16
Economic Sentiment Indicator (90-15=100)	108.8	106.5	109.6	107.3	106.1	105.2	108.0	Nov.16
Large Firms Sales (4)	5.0	2.3	3.9	1.5	3.2	2.1	2.6	Oct.16
Large Firms Sales. Domestic (4)	4.6	2.5	3.3	1.7	3.4	2.4	2.5	Oct.16
Industry								
Composite Industry Indicator (2)	3.2	1.7	3.4	2.0	1.6	1.4	-	Q.III.16
IPI calendar adjusted	3.4	1.7	4.2	2.6	1.4	1.6	0.3	Oct.16
Large Firms Sales. Industry (4)	4.5	2.7	3.9	2.0	3.7	1.9	3.7	Oct.16
Industry goods Exports (vol.)	9.5	7.7	12.7	5.6	16.9	0.4	-	Sep.16
Employment (LFS)	4.3	0.6	1.0	1.7	-0.4	0.5	-	Q.III.16
Social Security covered workers (5)	2.2	2.8	2.7	2.8	2.7	2.7	2.9	Nov.16
Industry confidence indicator (balances)	-0.3	-2.2	0.3	-1.9	-2.8	-3.8	0.4	Nov.16
Industry capacity utilization %	77.8	78.6	78.1	79.0	77.8	78.4	79.1	Q.IV.16
Construction								
Composite Construction Indicator (2)	3.2	2.2	3.2	3.4	1.7	1.6	-	Q.III.16
Cement Apparent Consumption	6.1	-3.4	5.2	-0.5	-3.9	-4.0	-7.2	Oct.16
Large Firms Sales.Construction (4)	1.3	-3.9	2.3	-1.1	-6.4	-3.7	-4.8	Oct.16
Employment (LFS)	8.1	-0.6	2.7	-2.7	-1.4	2.3	-	Q.III.16
Social Security covered workers (5)	4.7	2.6	4.1	2.6	2.1	2.7	3.3	Nov.16
Official bidding (at current prices)	-16.1	-8.5	-31.5	-4.5	-39.8	49.0	-	Sep.16
Floorage approvals: total	37.9	19.6	53.4	40.4	5.1	17.0	-	Sep.16
Floorage approvals: housing	42.6	32.6	85.9	60.4	28.4	13.7	-	Sep.16
Construction confidence indicator (balances)	-25.3	-39.3	-21.7	-31.7	-40.4	-44.3	-41.5	Nov.16
Mortgages. Amount borrowed	19.1	9.9	17.3	18.2	21.4	-6.2	-	Sep.16
Housing: Prices per sq meter	1.1	2.0	1.8	2.4	2.0	1.6	-	Q.III.16
Services								
Composite Services Indicator (2)	4.0	3.8	4.0	3.9	3.8	3.6	-	Q.III.16
Large Firms Sales. Services (4)	4.5	2.7	3.9	1.9	3.6	2.6	2.8	Oct.16
Railway passengers	2.2	5.0	4.4	5.1	3.7	6.6	3.6	Oct.16
Railway traffic goods (Tm per km)	-6.3	-8.5	-11.6	-5.8	-12.0	-8.1	-6.7	Oct.16
Air traffic passengers	6.0	10.9	8.7	14.4	9.8	9.7	12.1	Oct.16
Hotel overnight stays	4.4	7.3	6.5	13.3	7.1	5.3	6.5	Oct.16
Foreign tourists	5.5	10.2	9.0	13.9	10.4	8.2	11.0	Oct.16
Employment (LFS)	2.6	3.3	3.2	3.8	3.2	3.0	-	Q.III.16
Social Security covered workers (5)	3.5	3.2	3.4	3.1	3.0	3.3	3.6	Nov.16
Services confidence indicator (balances)	19.4	17.6	20.2	18.8	17.5	16.0	18.0	Nov.16
Retail trade confidence indicator (balances)	14.1	12.3	15.9	14.2	11.3	12.1	11.5	Nov.16

(1) Available period data. (2) Adjusted for seasonal, calendar and outliers effects. (3) Adjusted for calendar and temperature effects. (4) Calendar adjusted, deflated and fixed sample. (5) Total system. Monthly average.

Sources: SGACPE (MEIC), REE, DA, CE, AEAT, INE, MESS, OFICEMEN, MFOM, RENFE and AENA.

Dynamism in the construction sector continues

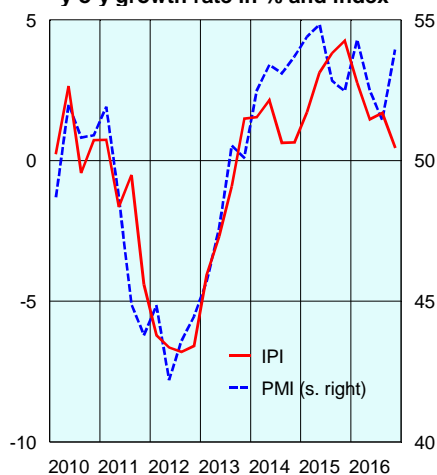
With regard to the construction sector, the sector leading indicators, such as the *floorage approvals in new construction*, according to construction new permits, recorded a y-o-y increase of 16.3% in September, lower than the figure registered in the previous month (46.5%), accumulating an annual average increase of 19.6% in the first nine months of the year, in comparison to the 33.4% registered in the same period of 2015. This slowdown in September was due to the lower drive of its two components: residential, which grew by 11%, four points and a half less than in the previous month and, to a greater extent, the non-residential component, which fell from a y-o-y rate of 160.4% in August, down to 34.8% in September.

On the other hand, the *Production Index in the Construction Industry (PICI)*, published by the Eurostat, rose by 3.9% y-o-y in September, compared to the 4.3% decline registered in the previous month. The PICI increase is explained by the evolution of the building component, which grew by 1.8% y-o-y, compared to the 6.7% fall of the previous month, as well as by civil works, which accelerated by almost seven points, registering a y-o-y increase of 15%. In the first nine months of the year as a whole, the PICI registered an average annual increase of 6%, compared to the 1.8% rise registered in 2015.

The behaviour of other indicators was less favourable, such as *apparent cement consumption*, which fell by 7.2% y-o-y in October, 3.8 points more than in September (-3.4%). The contractionary tone was due to the fall in domestic sales (-7.6%) and to the 3.3% increase in exports, partially offset by a rebound in imports (19.5%).

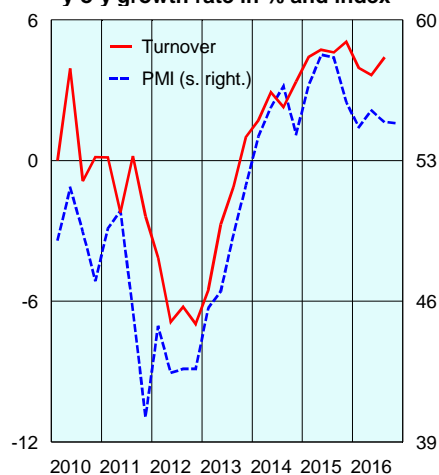
Among the qualitative indicators, the *confidence* in the sector should be noted, as it points towards an improvement in the fourth quarter of the year, reaching a balance of -37.6, 7.8 points less negative in November than in October, according to data from the European Commission.

G 2.8 INDUSTRY PRODUCTION and PMI
y-o-y growth rate in % and index



Sources: INE and Markit Group.

G 2.9 SERVICES ACTIVITY INDICATORS
y-o-y growth rate in % and index



Activity in the services sector continues to grow consistently

With regard to the services sector, the available short-term indicators show favourable signs. Thus, the *turnover* in the sector increased by 4.3% in y-o-y terms in September, two tenths less than in the previous month. The less expansionary trend is explained by the evolution of the trade sector, whose y-o-y growth stood at 3.7%, almost one point below that of August, partially

offset by the greater pace of progress of other services, whose 5.3% increase was seven tenths higher than that of the previous month. On the other hand, the *services confidence indicator* published by the European Commission, and the *services PMI* published by Markit, rose in November compared to that from the previous month.

The tourism sector gains momentum in October

Tourism-related indicators show the strengthening of the expansionary trend of the sector during the last months. The arrival of 7.1 million *international visitors* to Spain in October is stands out. According to the Survey of Tourist Movements on Border (FRONTUR), published by the INE, this figure is 11% higher than a year earlier (10.3% in September). The total expenditure of tourists increased by 16.3% y-o-y during the above mentioned month, while the average spending per person rose by 4.8% as a result of higher expenditure growth than the growth in tourists visits. Likewise, *hotel overnight stays* increased by 6.5% year on year in October, one point and a half more than in the previous month, a dynamism that is explained by the rebound of hotel overnight stays by Spanish nationals, which recorded a y-o-y increase of 4.8%, compared to the 1.7% fall of the previous month, and the sharp increase in foreign overnight stays (7.2%), although lower than in September. In the same month, the pace of *air passenger traffic* growth increased by 1.7 points in October, up to 12.1%

Likewise, *hotel overnight stays* increased by 6.5% year on year in October, one point and a half more than in the previous month, a dynamism that is explained by the rebound of hotel overnight stays by Spanish nationals, which recorded a y-o-y increase of 4.8%, compared to the 1.7% fall of the previous month, and the sharp increase in foreign overnight stays (7.2%), although lower than in September. In the same month, the pace of *air passenger traffic* growth increased by 1.7 points in October, up to 12.1%.

3. - PRICES

The CPI y-o-y rate increases by five tenths in October, up to 0.7%

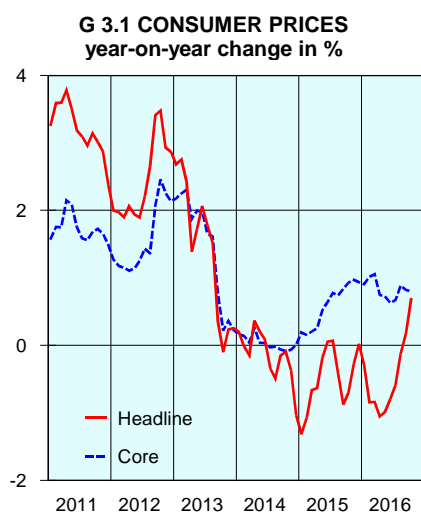
The Consumer Price Index (CPI) accelerated by five tenths in October, registering a y-o-y rate of 0.7%, half a point higher than in the previous month, mainly due to the evolution of energy products prices, which rose for the first time in more than two years. According to the leading CPI flash estimate, the index registered once again a rise of 0.7% in November. The monthly variation rate of the CPI reached 1.1% in October 2016, five tenths higher than that of the same month of 2015.

Energy products prices increase 0.1% y-o-y

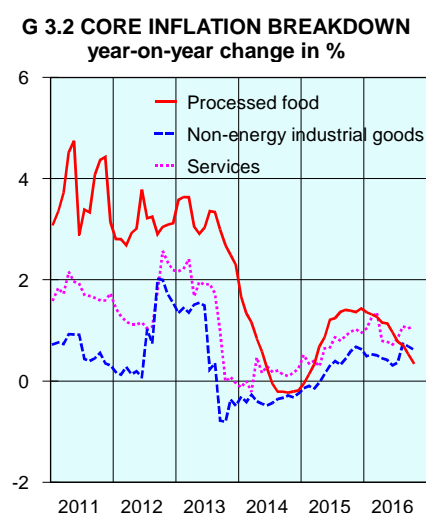
The prices index of energy products rose for the first time since July 2014, by 0.1% compared to the 4.8% decrease registered in September. This evolution is mainly due to the increase in electricity prices, which registered a y-o-y rate 7.6 points higher than that of September (0.9%, compared to the -6.7% recorded in the previous month) and the increase of fuel and lubricant prices, which registered a y-o-y rate 4.2 points higher than that of the previous month (1.4%, compared to the -2.8% in September).

For electricity, the positive y-o-y variation rate could be explained by the reduction in the weight of the sources supplied at a lower price (renewables, nuclear and cogeneration) in the wholesale market during October, which reached a 60% of the total electricity generated,

compared to the 64.3% registered a year earlier. On the other hand, gas and other fuel prices continued falling, but at a less pronounced pace.



Source: INE.

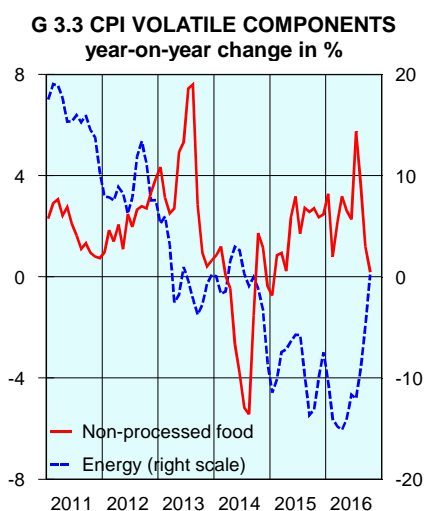


Source: INE.

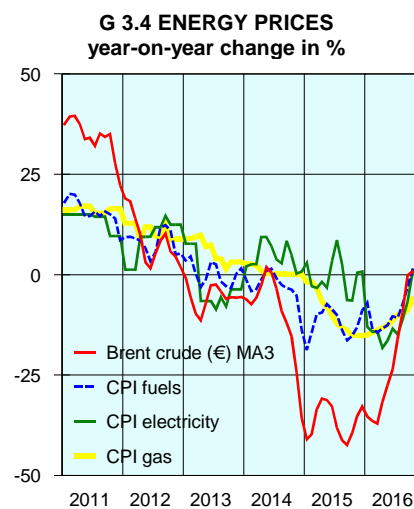
Prices of non-processed food rose by 0.2% y-o-y in October, one point less than in the previous month. This slowdown was mainly due to the evolution of fresh fruit prices, which fell from 4.8% in September down to 0.9% in October.

Core inflation remains at 0.8%

Core inflation (which excludes the most volatile elements from the general index, non-processed food and energy), remained at 0.8% in October, due to the fact that the slight acceleration in service prices (1.1% compared with the 1.0% in September) offset the slowdown of one tenth of processed food prices (0.4%, compared to the 0.5% registered in the previous month) and non-energy industrial goods (from 0.7% in September, down to 0.6%).



Source: INE.



Sources: INE and Reuters.

Table 3.1 Main price indicators

	Annual average			Year-on-year change in %					
	14	15	16(1)	2015		2016			
				Oct.	Dec.	Mar.	Jun.	Sep.	Oct.
CPI: Total	-0.2	-0.5	-0.5	-0.7	0.0	-0.8	-0.8	0.2	0.7
Core inflation (2)	0.0	0.6	0.8	0.9	0.9	1.1	0.6	0.8	0.8
CPI excl. food and energy	0.0	0.5	0.8	0.8	0.8	1.0	0.6	0.9	0.9
CPI excl. energy	-0.1	0.7	0.9	1.1	1.1	1.1	0.7	0.8	0.8
CPI food	-0.1	1.2	1.4	1.8	1.7	1.5	1.4	0.7	0.3
- Non-processed	-1.2	1.8	2.5	2.7	2.5	2.2	2.3	1.2	0.2
- Processed	0.4	0.9	1.0	1.4	1.4	1.3	1.0	0.5	0.4
CPI excl. food	-0.2	-1.0	-1.0	-1.4	-0.5	-1.5	-1.4	0.0	0.8
- Industrial goods	-0.5	-2.7	-3.1	-3.8	-1.9	-4.5	-3.6	-1.0	0.5
- Energy	-0.8	-9.0	-10.7	-13.1	-7.5	-14.8	-11.7	-4.8	-0.1
- Non-energy industrial goods	-0.4	0.3	0.5	0.6	0.6	0.5	0.3	0.7	0.6
- Total services	0.1	0.7	1.0	1.0	0.9	1.4	0.7	1.0	1.1
CPI manufactured goods (3)	-0.1	0.5	0.7	0.9	0.9	0.8	0.6	0.6	0.5
Industrial Producer Prices: Total	-1.3	-2.1	-4.1	-3.6	-2.2	-5.4	-4.5	-2.0	0.2
Energy	-3.1	-8.8	-13.7	-13.4	-7.8	-17.7	-14.7	-6.3	0.7
Non-energy IPP	-0.8	0.3	-0.6	0.0	-0.2	-1.0	-0.7	-0.4	0.1
Consumer goods	-0.5	1.1	0.1	1.2	0.7	0.0	0.2	-0.1	0.4
- Durable	0.5	0.2	1.2	0.2	0.3	1.0	1.4	1.2	1.2
- Non-durable	-0.5	1.2	0.0	1.3	0.7	-0.1	0.1	-0.3	0.4
- Food	-1.0	1.3	-0.3	1.6	0.6	-0.5	-0.2	-0.5	0.1
- Non-food	0.4	0.7	0.8	0.4	0.9	0.8	1.1	0.6	1.0
Capital goods	0.2	0.8	0.6	0.8	0.9	0.7	0.5	0.3	0.9
Intermediate goods	-1.5	-0.7	-1.9	-1.5	-1.6	-2.7	-2.2	-1.1	-0.7
Unit Value Indices (UVI): Imports	-2.3	-2.5	-4.2	-2.5	-5.7	-9.0	-3.3	-1.7	-
- Consumer goods	1.1	7.0	1.6	6.5	3.6	0.9	0.7	1.3	-
- Consumer food	3.4	4.2	-1.3	1.5	-0.1	-1.6	-3.0	-3.6	-
Exports	-0.9	0.6	-2.0	0.7	-0.5	-3.2	-2.0	-0.2	-
Prices received by farmers (4)	-	6.4	-3.1	10.9	4.6	-3.9	-0.5	-2.8	-
GDP Deflator	-0.3	0.5	0.3	..	0.4	0.2	0.4	0.3	..
Private Consumption Deflator	0.2	-0.2	-0.6	..	0.0	-0.6	-1.0	-0.2	..

Average of the period available data.

General CPI excluding non-processed food and energy.

Processed food and non-energy industrial goods.

MAPM. A only supply data from January 2014 (2010=100). Latest data is July.

Sources: INE, DA, MAPM and SGACPE.

This slight acceleration in the services prices, of one tenth, up to 1.1%, was the result of an uneven performance among its components. In particular, telephone services prices grew by 3.5%, versus the 3% registered in September, while package holidays prices intensified their fall down to 4.9%, compared to the 2.6% decrease recorded in the previous month.

Prices of processed food, beverages and tobacco slowed down one tenth in October, to 0.4% y-o-y. The decrease in edible oil prices stood out, as they fell from 2.6% in September down to -1.5% in October

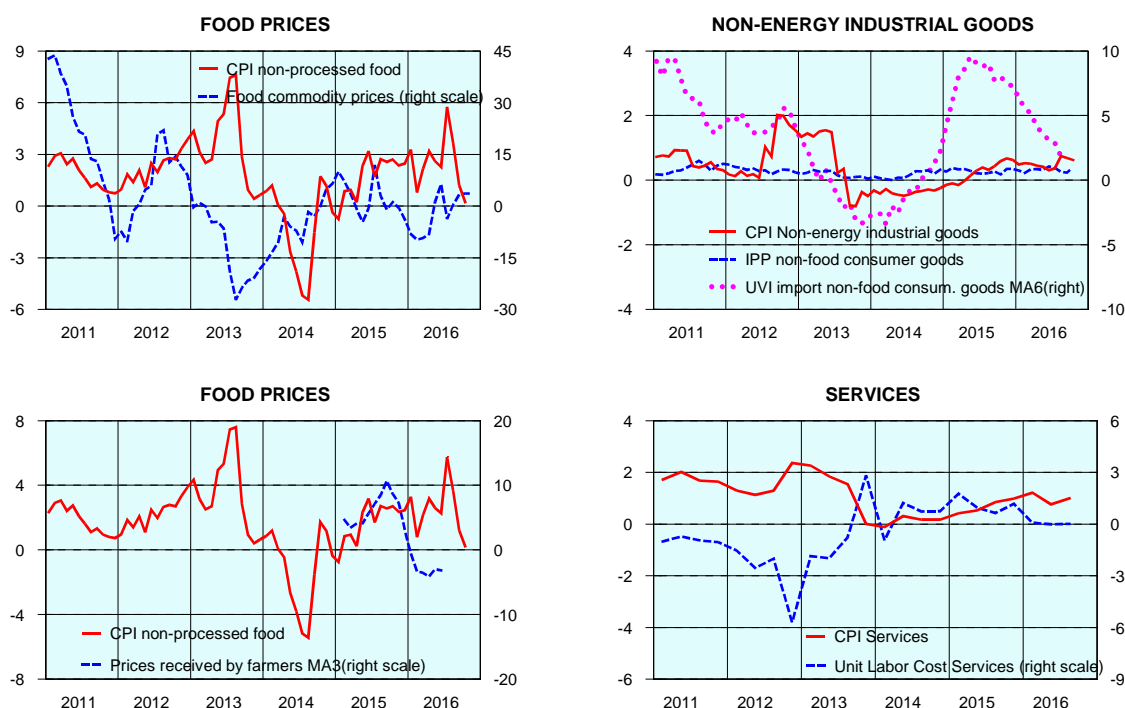
On the other hand, non-energy industrial goods (BINE) prices recorded a y-o-y rate of 0.6% in October, one tenth less in comparison to September, without any significant changes in its components.

The flash estimate sets the CPI y-o-y rate at 0.7% in November

According to INE's flash estimate, the y-o-y rate of the national CPI stabilised at 0.7%. This behaviour is mainly explained by the price of fuels.

G. 3.5 COMPONENTS AND MAIN LEADING INDICATORS

Year-on-year change in %



Sources: INE, MAPM, Customs and SGACPE.

The inflation differential favourable to Spain against the Eurozone stands at 0.1 p.p.

The harmonised inflation, estimated by Spain's HICP flash estimate, remained at 0.5% y-o-y in November. During that month, the Eurozone's HICP recorded a y-o-y variation of 0.6%, one tenth higher than in October. Therefore, if November final figures confirm the estimates, Spain's inflation differential against the Eurozone would be favourable for Spain (-0.1 percentage points), compared to the null differential of last October.

The PPI y-o-y variation rate turned positive in October

The Producer Price Index (PPI) rose by 1.5% in October 2016 compared to the previous month, versus the 0.8% fall registered in the same month of 2015. In y-o-y terms, the PPI y-o-y variation stood at 0.2%, more than two points higher to that registered in the previous month.

Table 3.2 Inflation differential against main competitors (1)

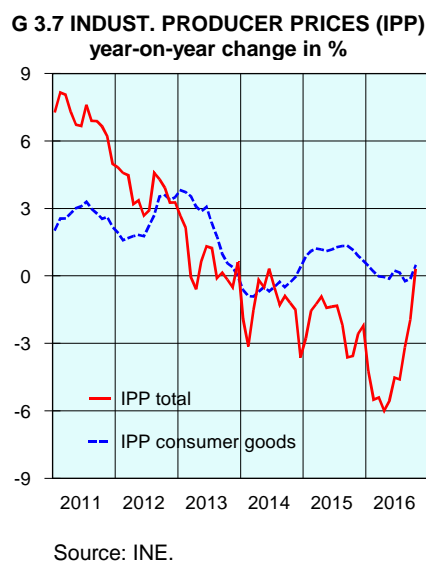
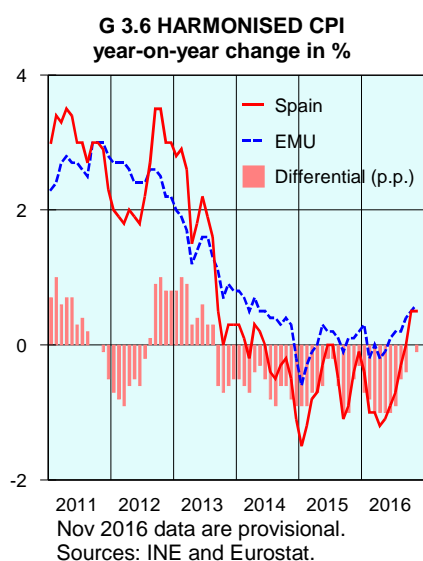
	2014	2015	2016(2)	2015		2016			
				Oct.	Dec.	Mar.	Jun.	Sep.	Oct.
Eurozone	-0.6	-0.6	-0.7	-1.0	-0.3	-1.0	-1.0	-0.4	0.0
Core inflation	-1.0	-0.4	-0.1	-0.3	-0.1	-0.1	-0.3	-0.2	-0.2
- Proc. food.	-1.3	0.4	0.3	1.0	0.9	0.8	0.3	-0.3	-0.5
- Non-energy industrial goods	-0.4	-0.2	-0.1	-0.4	-0.1	-0.3	-0.1	0.1	-0.1
- Services	-1.2	-0.7	-0.3	-0.5	-0.3	-0.2	-0.5	-0.3	-0.2
Non-proc. food.	0.7	-0.1	0.7	-1.2	0.0	0.6	0.4	0.2	0.5
Energy	1.1	-2.2	-4.5	-4.6	-1.6	-6.1	-5.2	-1.8	1.0
EU	-0.7	-0.6	-0.7	-0.9	-0.3	-1.0	-1.0	-0.4	0.0
OECD	-1.9	-1.2	-1.6	-1.4	-0.9	-1.8	-1.8	-1.2	-
USA	-1.8	-0.7	-1.7	-1.1	-0.8	-1.9	-1.9	-1.5	-1.1

(1) Differences in percentage points between the annual variation in the CPI for Spain and other areas or countries. For Spain and the EU countries, these rates have been calculated with harmonised price indices.

(2) Average of the period available data.

Sources: Eurostat and OECD.

This increase in the general index is mainly explained by the rebound in energy production prices, which rose for the first time in 27 months, by 0.7%, compared to the 6.3% drop recorded in September. In particular, the y-o-y rate of electricity, gas, steam and air-conditioning supply prices increased by 6.4 points, from -7.8% in September to -1.4% in October. Likewise, coke and refined petroleum prices grew by 3.8% in October, after recording a y-o-y rate of -6.1% in the previous month.



The y-o-y rate of non-energy goods prices also became positive, for the first time in twelve months, registering a value of 0.1% in October, five tenths higher than that of the previous month.

This evolution of non-energy prices is explained by the y-o-y rate increase of prices of its main components, except for durable consumer goods, which maintained their y-o-y rate at 1.2%. Thus, non-durable consumer goods prices grew by 0.4% in October, after falling by 0.3% in September; intermediate goods softened their rate of decline by four tenths, to -0.7%, as a result of the evolution of both metallurgy prices, which grew for the second time in sixteen months, by 1.1% (0.4% in September) and the chemical industry, which registered a more moderate decline (-1.0%, compared to the -2.3% registered in the previous month); and production prices of equipment goods accelerated by six tenths, up to 0.9%.

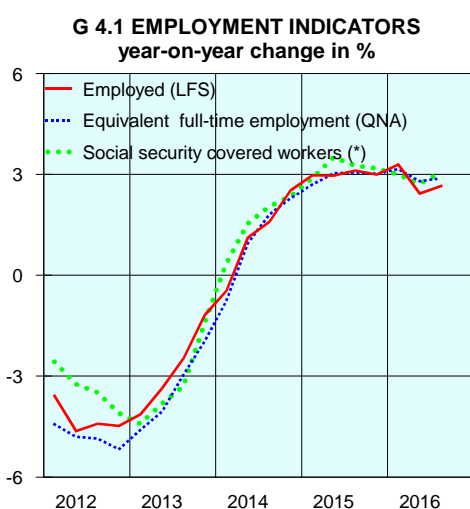
4. - LABOUR MARKET

In the third quarter of 2016, labour market statistics show an acceleration in employment, both in the case of the Labour Force Survey (LFS) and in the register of Social Security covered workers, with a pace of job creation of approximately 3% y-o-y. In October and November an intensification in the pace of job creation is observed, according to published figures of covered workers.

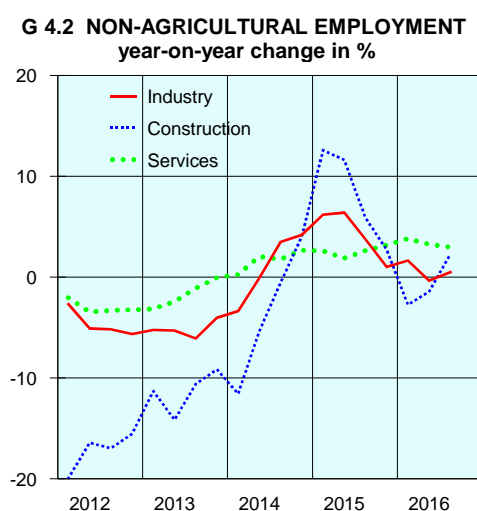
Employment grows at y-o-y rates close to 3% in the third quarter of 2016

According to LFS data, in the third quarter of 2016 the number of employed people increased by 226,500 (182,200 in the same period last year), standing the total employed people at 18.5 million. With seasonally adjusted data by the INE, employment accelerated by four tenths in q-o-q terms, registering a rate of 0.8%. In y-o-y terms, and with unadjusted data, LFS employment increased by 478,800 people in the third quarter of 2016, representing a variation rate of 2.7%, three tenths higher than the figure registered in the second quarter.

The other two main statistic sources of the labour market point in the same direction. Thus, according to the Quarterly National Accounts (QNA), full-time equivalent employment grew by 0.8% q-o-q in the third quarter, with seasonally and calendar adjusted data, one tenth more than in the previous quarter and in y-o-y terms and with unadjusted data, it increased by 2.9% y-o-y, one tenth more than in the second quarter.



Sources: INE (LFS and QNA) and MESS.



Source: INE (QNA).

Table 4.1 Summary of employment market indicators

	Latest figures (1)		Year-on-year change in %					
	Thousands	Annual Δ	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III
LABOUR FORCE SURVEY								
In work	22848.3	-51.2	0.2	-0.1	-0.7	-0.3	-0.6	-0.2
- Men	12242.1	-113.2	-0.2	-0.4	-1.1	-0.8	-1.0	-0.9
- Women	10606.2	62.0	0.6	0.1	-0.2	0.2	-0.1	0.6
Employment rate (2)(*)	59.3	-	0.2	0.0	-0.3	-0.2	-0.4	-0.2
- Men	65.3	-	0.0	-0.1	-0.6	-0.4	-0.6	-0.6
- Women	53.6	-	0.3	0.1	-0.1	0.1	-0.1	0.2
In work	18527.5	478.8	3.0	3.1	3.0	3.3	2.4	2.7
- Non-agricultural sector	17783.7	444.6	3.1	3.0	2.8	3.1	2.4	2.6
- Industry	2531.3	12.4	6.4	3.8	1.0	1.7	-0.4	0.5
- Construction	1107.2	24.6	11.6	5.9	2.7	-2.7	-1.4	2.3
- Services	14145.2	407.6	1.9	2.6	3.2	3.8	3.2	3.0
- Men	10112.7	216.2	3.4	3.0	3.2	3.4	2.1	2.2
- Women	8414.8	262.6	2.4	3.2	2.7	3.1	2.8	3.2
- Foreign nationals	2012.2	73.2	2.2	3.7	4.5	4.5	3.8	3.8
- Full time	15830.4	532.1	3.7	2.8	3.4	4.0	3.0	3.5
- Part time	2697.1	-53.3	-0.9	4.8	0.8	-0.2	-0.6	-1.9
Part-time employment rate (3)(*)	14.6	-	-0.6	0.2	-0.3	-0.6	-0.5	-0.7
Wage earners	15404.6	455.7	3.1	3.7	3.5	3.8	2.9	3.0
- Private Sector	12400.7	438.2	3.7	4.1	3.7	4.2	3.3	3.7
- Public Sector	3003.9	17.5	0.9	2.1	2.5	2.1	1.3	0.6
- On a permanent contract	11252.3	213.1	1.6	1.6	1.6	1.8	2.0	1.9
- On a temporary contract	4152.3	242.6	8.0	10.1	9.5	10.1	5.5	6.2
Rate of workers on temporary contracts (4)(*)	27.0	-	1.1	1.5	1.4	1.4	0.6	0.8
Self-employed	3122.9	23.1	2.3	0.3	0.6	1.1	0.3	0.7
Unemployed	4320.8	-530.0	-8.4	-10.6	-12.4	-12.0	-11.2	-10.9
- Men	2129.4	-329.4	-11.7	-12.0	-15.4	-15.1	-13.1	-13.4
- Women	2191.4	-200.6	-4.8	-9.2	-9.2	-8.7	-9.2	-8.4
- Under the age of 25	647.4	-119.3	-8.7	-11.6	-15.5	-14.3	-9.7	-15.6
- Having no previous job	471.1	-95.7	4.1	-2.1	-16.4	-19.9	-15.8	-16.9
Unemployment rate(5)(*)	18.9	-	-2.1	-2.5	-2.8	-2.8	-2.4	-2.3
- Men	17.4	-	-2.7	-2.6	-3.3	-3.3	-2.6	-2.5
- Women	20.7	-	-1.4	-2.3	-2.2	-2.2	-2.2	-2.0
- Young people (aged 16-24)	41.9	-	-3.9	-5.8	-5.6	-4.9	-2.7	-4.6
COVERED WORKERS								
Total workers covered	17780.5	557.4	3.5	3.3	3.2	3.0	2.7	3.0
Wage earners	14571.9	527.7	3.8	3.6	3.6	3.4	3.1	3.5
Self-employed	3208.6	29.8	2.2	1.7	1.4	1.2	1.0	0.9
- Foreign nationals	1704.9	83.5	3.3	3.9	4.6	5.4	4.5	5.1
PUBLIC EMPLOYMENT SERVICES								
Registered unemployment	3789.8	-359.5	-7.6	-8.2	-7.9	-8.1	-7.9	-9.1
Registered contracts	1743.7	138.9	10.9	9.6	10.9	6.1	9.9	6.9
- Permanent (6)(*)	8.9	-	-0.3	0.0	-0.3	0.2	0.6	0.6
- Part time (6)(*)	35.9	-	0.0	-0.3	-0.2	0.1	0.4	0.6

(1) Third quarter for the Labour Force Survey and the month of november for Membership of the S.S. and Spanish Public Employment Service figures.

(2) Percentage of people in work, over the population aged 16 or over.

(3) Percentage of people in part-time employment over the total number of people in employment.

(4) Percentage of wage earners on temporary contracts.

(5) Percentage of unemployed over total labour force.

(6) Percentage over the total number of contracts.

(*) The end columns show the change over the previous year in percentage points.

Sources: INE (LFS) and MESS.

On the other hand, according to the information published by the Ministry of Employment and Social Security, the number of Social Security covered workers, with seasonally adjusted data rose by 0.7% q-o-q in the third quarter of 2016, two tenths less in comparison to the second quarter. In y-o-y terms, the number of Social Security covered workers shows an acceleration of three tenths, recording a rate of 3% in the third quarter.

On the other hand, according to LFS data, the employment rate of the population over 16 years old rose 1.2 p.p. in the third quarter, compared to the figure registered in the same period of 2015, standing at 48.1%.

The acceleration of employment in the third quarter affected the major branches of activity

According to LFS figures, the y-o-y rise in employment affected all major branches of activity in general and more particularly the services sector, where it increased by 407,600 employed people (3% y-o-y). This figure is followed by agriculture, with 34,300 employed people more (4.8%), construction with 24,600 (2.3%) and industry with 12,400 (0.5%).

Half of the jobs created were of a permanent nature

In terms of the professional status of workers, in comparison to a year earlier, contracted employees rose by 455,700, registering a y-o-y variation rate of 3%, compared to the 2.9% recorded in the previous quarter, and the number of self-employed workers increased by 22,500, 0.7%, versus the 0, 2% of the second quarter.

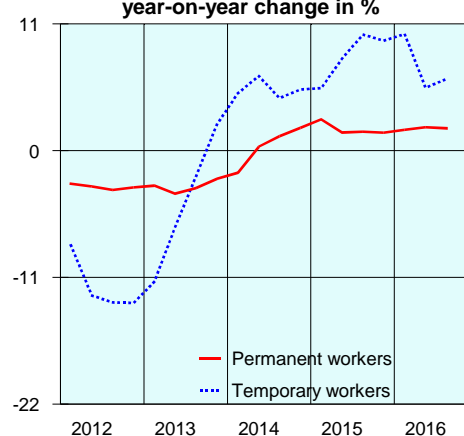
By type of contract, in comparison to a year earlier, the increase of wage employment was 213,100 (1.9% y-o-y, 47% of the net job creation) workers on a permanent contract and 242,600 workers with a temporary one (6.2% y-o-y, 53% of the job creation). As a result of this evolution of employment, the temporary rate stood at 27%, eight tenths higher compared to a year earlier.

G 4.3 PRIVATE AND PUBLIC EMPLOYMENT
year-on-year change in %



Source: INE (LFS).

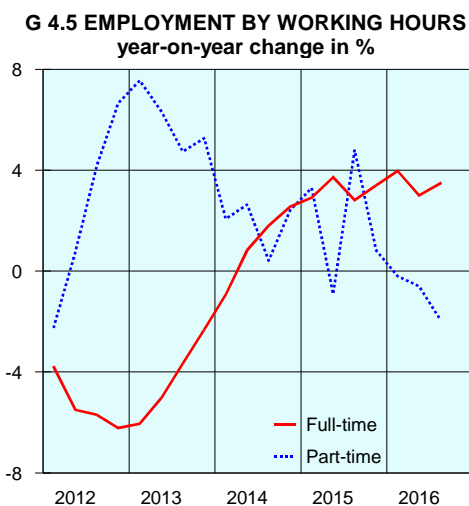
G 4.4 EMPLOYEES ACORDING TO CONTRACT DURATION
year-on-year change in %



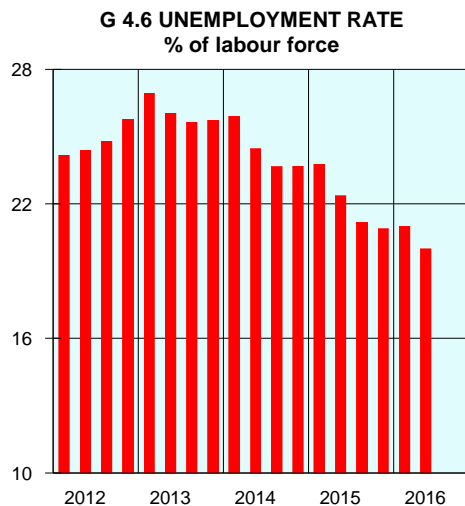
Source: INE (LFS).

Regarding working hours, full-time workers rose by 3.5% compared to the same quarter of 2015, half a point more than in the previous quarter, and part-time employees fell by 1.9%, compared to the more moderate decline of the previous quarter (-0.6%). Following these results, the weight of part-time workers on the total decreased by 0.7 p.p. compared to a year earlier,

standing the partiality rate at 14.6%. By motive, it should be noted that the proportion of those who work part-time because they could not find full-time work continues to decline, standing at 8.9% of the total employed people, which is six tenths lower than in the same quarter last year.



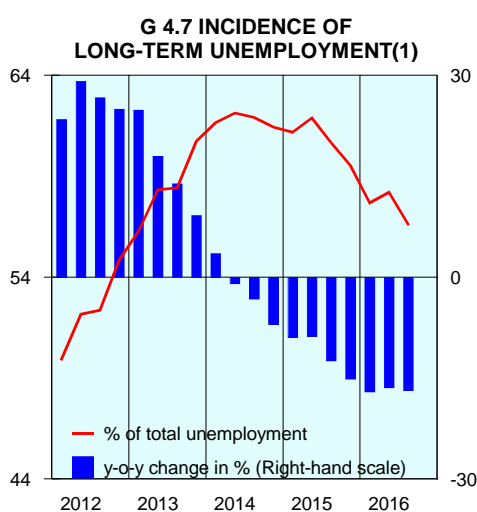
Source: INE (LFS).



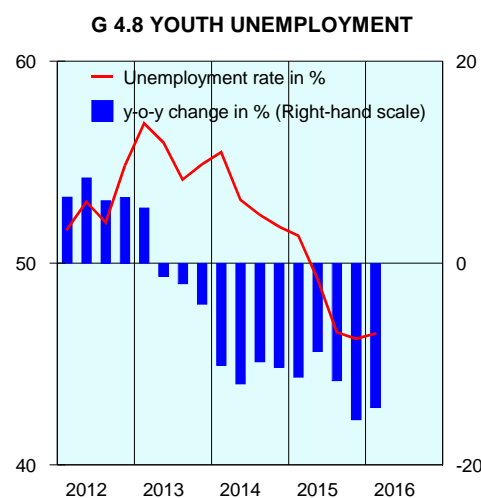
Source: INE (LFS).

Unemployment falls at a y-o-y rate of 10.9%

According to LFS figures, unemployment fell by 253,900 people in the third quarter of 2016 compared to the same quarter of 2015, while it fell by 298,200 people a year earlier, the total number of unemployed people reaching 4,320,800, a figure lower than that at the end of 2009 (4.33 million). With seasonally adjusted data by the INE, the q-o-q variation in the number of unemployed stands at -3%, versus the -2.1% of the previous quarter, linking fourteen consecutive quarters of decline. During the last year, unemployment fell by 530,000 people, implying a y-o-y decline rate of 10.9%. The unemployment rate fell 1.1 points compared to the previous quarter and 2.3 points compared to a year earlier, down to 18.9% of the labour force.



Source: INE (LFS).

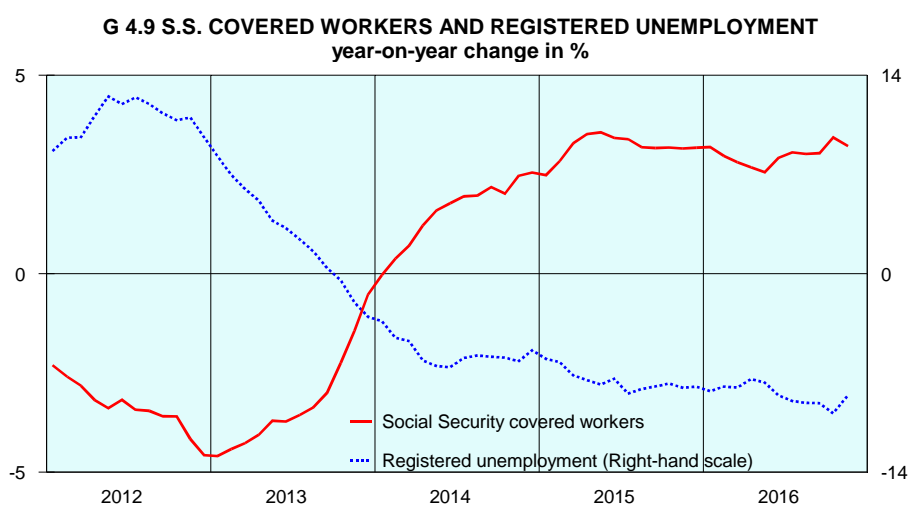


Source: INE (LFS).

Youth unemployment and long-term unemployment continue to fall

By age groups, all groups registered unemployment falls during the third quarter, the largest falls focusing on the people between 25 and 54 years old (199,800 less unemployed) and people between 20 and 24 years old (43,900 less unemployed).

By duration of job search, most of the unemployment rate decline is explained by the long-term component¹ (people seeking employment for over one year), whose proportion on the total of the labour force fell 2.1 points, down to 10.7%. The reduction occurred mostly amongst those who had been seeking employment for over 2 years.



Source: MESS.

According to the latest labour market information, as shown by the Social Security (SS) covered workers records, employment accelerated three tenths in the two month period from October to November compared to the third quarter, registering a y-o-y rate of 3,3%. This is due to the acceleration of employment in all activity branches, with the service sector standing out. Here, the social security covered workers grew by 3.6% y-o-y in the period between October and November, three tenths more than in the third quarter.

With regard to registered unemployment, the rate of decline sharpened two tenths in the two-month period, to 9.3% y-o-y. The main branches responsible for this evolution are services, whose y-o-y rate fell from -7.6% in the third quarter down to -7.9% in the period from October to November, and construction's, which decreased from -13.2% down to -16.5%.

The wages and unit labour costs moderation continues

According to LFS figures, compensation per employee rose by 0.1% y-o-y, two tenths less than in the second quarter, so in the period from July to September the unit labour costs (ULC) continued to fall slightly, by 0.1%, compared to the 0.3% drop of the second quarter. By main activity branches, the slight moderation in the fall of the nominal ULC mainly comes from the industry sector, where they fell by 0.1%, after the decline of 1.4% recorded in the previous

¹N. B: strictly speaking, long-term unemployment is defined as the group of people unemployed and seeking employment at least during one year. In this report we use the information available on the INE website, which allows us to break down unemployment by seeking time, but not according to the time people have been unemployed

Table 4.2 **Wage indicators**
(year-on-year change in %)

	2014	2015	2016 (1)	2015			2016		
				II	III	IV	I	II	III
<u>COLLECTIVE BARGAINING AGREED WAGES(2)</u>									
All sectors	0.5	0.7	1.1	0.7	0.8	0.7	1.1	1.1	1.1
- Agriculture	0.7	0.7	0.9	0.8	0.8	0.7	0.9	0.9	0.9
- Industry	0.6	0.8	1.1	0.7	0.7	0.8	1.1	1.1	1.1
- Construction	0.1	0.8	0.9	1.1	0.9	0.8	0.7	0.9	0.9
- Services	0.5	0.7	1.1	0.7	0.7	0.7	1.2	1.2	1.1
<u>TOTAL LABOUR COSTS PER WORKER</u>									
All sectors	-0.3	0.6	-0.2	0.4	0.3	1.2	-0.2	-0.1	-
- Industry	1.3	-0.4	0.4	-0.4	-0.4	-0.4	0.5	0.3	-
- Construction	-0.2	-1.1	-1.8	-0.8	-0.3	-2.1	-2.2	-1.4	-
- Services	-0.6	1.0	-0.1	0.8	0.5	1.9	-0.2	-0.1	-
<u>WAGE COSTS PER WORKER</u>									
All sectors	-0.1	1.1	0.0	0.6	0.5	1.7	0.0	0.1	-
- Industry	1.5	0.4	0.7	0.2	0.2	0.6	1.0	0.4	-
- Construction	0.7	-0.7	-1.3	-1.4	-0.1	-1.9	-1.7	-0.9	-
- Services	-0.5	1.4	0.0	0.9	0.7	2.3	0.0	0.1	-
<u>NON-WAGE COSTS PER WORKER</u>									
All sectors	-1.0	-0.7	-0.8	-0.2	-0.5	-0.3	-1.0	-0.6	-
- Industry	0.7	-2.6	-0.2	-2.2	-2.1	-3.4	-0.7	0.3	-
- Construction	-2.3	-2.0	-2.9	0.9	-0.7	-2.5	-3.5	-2.4	-
- Services	-1.0	-0.1	-0.7	0.2	0.0	0.7	-0.8	-0.6	-
<u>COMPENSATION PER EMPLOYEE (3)</u>									
All sectors	0.0	0.4	0.1	0.2	0.2	0.6	0.0	0.3	0.1
- Agriculture	-3.3	6.0	3.0	5.2	4.5	7.8	3.4	4.0	1.6
- Industry	0.7	-0.7	0.3	-0.8	-0.8	-0.6	0.5	0.3	0.0
- Construction	0.4	-1.0	-1.2	-0.8	-0.5	-2.4	-1.5	-1.1	-1.0
- Services	0.0	0.8	0.2	0.5	0.6	1.1	0.1	0.4	0.2
<u>LABOUR COST PER UNIT OF PRODUCT (4)</u>									
All sectors	-0.3	0.2	-0.2	0.2	-0.3	0.0	-0.3	-0.3	-0.1
- Agriculture	-1.0	10.5	2.6	11.1	13.9	8.6	4.2	2.8	0.9
- Industry	-2.4	-4.4	-0.7	-4.2	-4.8	-4.0	-0.7	-1.4	-0.1
- Construction	-1.4	5.3	-1.0	7.1	5.1	1.6	-1.7	-1.2	-0.2
- Services	0.4	1.1	0.0	0.9	0.6	1.2	0.1	0.0	0.0

(1) Available period data.

(2) Aggregate figures. The years include the reviews from wage revision clauses.

(3) Equivalent full-time employment. Figures corrected for seasonal factors.

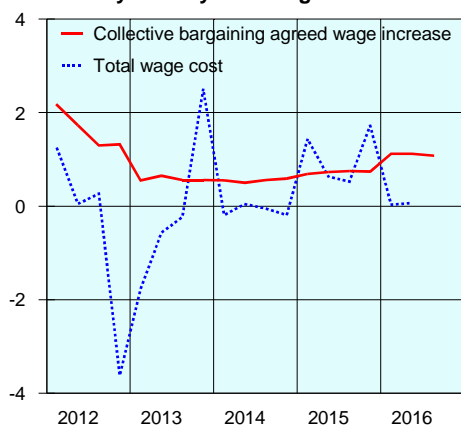
(4) Compensation per employee/labour productivity. Figures corrected for seasonal factors.

Sources: MESS and INE (Quarterly survey of labour costs and National Accounts Base 2010).

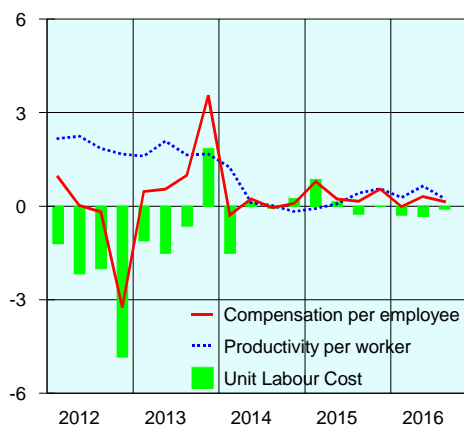
quarter and construction, where ULC moderated the pace of decline one point, to -0.2%. On the other hand, agriculture, farming, forestry and fishing rose 0.9% y-o-y, almost two points less than in the previous quarter, and services registered a null variation, as in the previous quarter.

G 4.10 WAGE INDICATORS

COLLECTIVE BARGAINING AGREED WAGE INCREASE AND TOTAL WAGE COSTS
year-on-year change in %



UNIT LABOUR COST AND COMPONENTS
year-on-year change in %



Sources: INE (ETCL and QNA) and MESS.

According to the Collective Bargaining Agreement Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise with the information available up to October remained at 1.1%. It should be noted that, according to the III Agreement for Employment and Collective Bargaining, the maximum rise set for 2016 is 1.5%. By sectors, wage increases occurred in services (1.1%), industry (1.1%), agriculture (0.9%) and construction (0.9%).

Up to October, 1,152 opt-outs were registered, affecting 26,657 workers, 24.2% less than in the same period last year. As usual, most of the opt-outs submitted (88.5%) related to salaries.

5. - PUBLIC SECTOR

On 29th November 2016, the Ministry of Finance and Civil Service published the data of non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, for September 2016, and the State monthly budget execution data for October, both in terms of National Accounts and Cash. On the other hand, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to October.

The General Government consolidated deficit, excluding Local Governments, stands at 3.31% of GDP up to September

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to September 2016 a deficit of € 36.9 billion (3.31% of GDP), 1.5% higher in comparison to the same period of 2015 (3.38% of GDP). Excluding the assistance to the financial institutions, the deficit stands at € 34.7 billion (3.11% of GDP), 3.3% lower than the figure accumulated up to September last year. This deficit increase, including the assistance, is explained by a y-o-y increase of non-financial uses (€ 3.6 billion, equivalent to an increase of

1.1%) higher than the one recorded by non-financial resources (€ 3.0 billion, also equivalent to a 1.1% increase)

Table 5.1. State Budget Outturn
Accumulated amounts in millions euros. Year-on-year in %

	2015 Outturn	2016 Budget	% Change	Outturn October		
				2015	2016	% Change
1. NON-FINANCIAL RECEIPTS	144,375	134,773	-6.7	123,012	115,974	-5.7
TAXES	107,354	112,880	5.1	94,250	93,016	-1.3
Direct	64,174	69,404	8.1	54,635	53,757	-1.6
Personal income tax	38,731	39,610	2.3	33,956	30,878	-9.1
Corporate income tax	20,649	24,868	20.4	17,001	19,063	12.1
Others	4,795	4,926	2.7	3,678	3,816	3.8
Indirect	43,180	43,476	0.7	39,615	39,259	-0.9
Value added tax	32,565	31,334	-3.8	30,662	29,837	-2.7
Excise duties	7,340	7,923	7.9	6,220	6,556	5.4
Others	3,275	4,219	28.8	2,732	2,866	4.9
OTHER RECEIPTS	37,021	21,893	-40.9	28,763	22,959	-20.2
2. NON-FINANCIAL PAYMENTS	158,055	157,189	-0.5	125,699	125,562	-0.1
Wages and salaries	16,406	16,808	2.5	13,212	12,921	-2.2
Goods and services	3,537	3,082	-12.9	2,327	2,513	8.0
Interest payments	31,750	33,514	5.6	23,777	31,141	31.0
Current transfers	90,374	88,812	-1.7	74,773	70,771	-5.4
Contingency fund	-	2,468	-	-	-	-
Real investment	5,680	3,632	-36.1	3,918	2,672	-31.8
Capital transfers	10,308	8,873	-13.9	7,693	5,543	-27.9
CASH BALANCE (1-2)	-13,679	-22,416	63.9	-2,687	-9,588	256.8
Memorandum item (National Accounts):						
Non-financial resources	174,521			150,286	148,302	-1.3
Non-financial uses (EDP)	214,181			172,206	169,958	-1.3
NET LENDING (+) OR BORROWING (-)	-39,660			-21,920	-21,656	-1.2
As % of GDP	-3.67			-2.04	-1.94	

Source: Ministerio de Hacienda y Función Pública.

It should be noted that these figures are affected by the final settlement of Local Governments corresponding to 2014 (the settlement corresponding to the Regional Governments does not affect the overall balance of this aggregate). If the effect of the balance of the final settlement of Local Governments is excluded, the deficit without financial assistance stands at € 33.8 billion, 7.9% lower in comparison to the same period of 2015.

The increase of non-financial resources is mainly due to the increase of taxes on production and imports (2.1%) and social contributions (3%), partially offset by the fall of current taxes on income and wealth (-3.9%), taxes on capital (-2.6%) and transfers from other public administrations (-5.3%).

Regarding non-financial uses, these mainly increased due to the rise in social benefits other than transfers in kind (1.9%), social transfers in kind of market producers (3%), transfers to

other public administrations (4.8%) and compensation of employees (2.5%). Among the items that fell, intermediate consumption (-1%), interests (-6%), subsidies (-13.5%) and gross fixed capital formation (-16.7%) stand out.

The Central Government ended the first nine months of 2016 with a deficit of € 28.5 billion (2.56% of GDP), 28.8% higher than the figure registered in the same period of 2015 (€ 22.1 billion, equivalent to 2.06% of GDP). This is due to a decline in non-financial resources and to an increase in non-financial uses.

Non-financial resources of the Central Government fell by 4.1%, mainly due to the fall of current taxes on income and wealth (-12.7%); to the effect of the final settlement of the financing system of Regional Governments corresponding to 2014; to the impact of the tax reform; to the end in 2016 of the temporary measures affecting the instalment payments of the Corporate Tax; and to the inclusion in the accrued revenue in 2015 of several inspection reports of such tax for an amount exceeding that included in the reports made in 2016.

On the other hand, non-financial uses increased by 0.4%. The expenditure of the Central Government eligible to be included in the calculation of the expenditure rule increased by 3.6% y-o-y, up to € 71.4 billion.

The Regional Governments accumulated a deficit of €2.1 billion (equivalent to 0.19% of GDP) up to September this year, 81.5% lower than in the same period of 2015 (€ 11.5 billion, equivalent to 1.07% of GDP). This lower deficit is explained by a decrease of non-financial uses (-1.5%) and, to a larger extent, to an increase of non-financial resources (6.8% y-o-y). This evolution is mainly due to the result of the final settlement of the financing system resources corresponding to 2014, whose final settlement balance in favour of the Regional Government increased considerably compared to the settlement of 2013, and to the higher payments on account, excluding advances on account, which increased by 2.7% as a whole compared to the previous financial year.

In September 2016, the Regional Governments did not receive from the State advanced payments from the financing system resources, while in the same period of 2015 advanced payments amounting to € 359 million were granted. Excluding the effect of these advanced payments, the deficit at the end of September 2015 would have reached € 11.9 billion, 1.1% of GDP, 0.91 points higher than the deficit registered in the same period of 2016. The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure rule in the analysed period decreased by 0.3% y-o-y, standing at € 101.9 billion.

As for Social Security Funds, these ended the first nine months of the year with a deficit of € 6.2 billion (0.56% of GDP), versus a deficit of €2.7 billion in the same period of 2015 (0.25% of GDP). This deficit increase is explained by a fall of non-financial resources (-1.6%, despite the 3.3% increase of social contributions), due in turn to the decline of transfers received from other public administrations (-22.6%), and by an increase in non-financial uses (1.5%). This evolution is due to the worst results of the System, which has increased its deficit by 16.9%, as well as to the lower surplus of the State Public Employment Service, which has decreased by almost half, to € 2.5 billion, mainly due to the lower transfers received from the State. Credits in the State budget in 2016 to finance the budget of this agent fell by 61.2% compared to the previous year.

The State's deficit stands at 1.94% of GDP up to October in terms of National Accounts

Up to October 2016, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 21.7 billion (1.94% of GDP) 1.2% lower than the deficit accumulated in the same period of 2015. This lower deficit was due to a y-o-y decrease in non-financial uses (-1.3%) partially offset by a decrease of non-financial resources (-1.3%).

In terms of Cash, the State recorded a deficit of €9.6 billion up to October 2016, higher by € 6.9 billion to the figure recorded in the same period of 2015 (€ 2.7 billion). Non-financial revenues decreased by 5.7% y-o-y, reaching € 116 billion, while non-financial payments decreased by 0.1%, down to € 125.6 billion.

Table 5.2. State tax collection
Including the Regional and Local Governments' share
Accumulated amounts in millions euros. Year-on-year in %

	2014	2015	% Annual Change	January-October		% Annual Change
				2015	2016	
Direct taxes	95,571	97,789	2.3	82,687	84,670	2.4
Personal income tax	72,655	72,346	-0.4	62,008	61,791	-0.4
Corporate income tax	18,694	20,649	10.5	17,001	19,063	12.1
Non-resident income	1,420	1,639	15.5	1,407	1,745	24.0
Other direct taxes	2,802	3,156	12.6	2,271	2,072	-8.8
Indirect taxes	78,225	82,726	5.8	72,384	75,598	4.4
Value added tax	56,166	60,305	7.4	53,655	56,145	4.6
Excise duties	19,104	19,147	0.2	15,996	16,588	3.7
Tobacco	6,661	6,280	-5.7	5,496	5,553	1.0
Hydrocarbons	9,724	9,783	0.6	8,144	8,849	8.6
Others	2,719	3,084	13.4	2,356	2,186	-7.2
Other indirect taxes	2,956	3,275	10.8	2,732	2,866	4.9
TOTAL TAXES	173,796	180,516	3.9	155,071	160,268	3.4

Source: IGAE, Ministerio de Hacienda y Función Pública.

Total tax revenues increase by 1.9%, in homogeneous terms up to October

Total tax revenues (including the Regional and Local Governments' share) recorded a 3.4% increase up to October, versus the null variation accumulated up to September, due to the fact that the collection of October grew by 18.5%, mainly boosted by the extraordinary increase of the payment of the second instalment of Corporate Tax. In homogeneous terms, that is, adjusted by the different tax rebates rate in both years, the IVMDH refunds (health cent) and the deferrals of public entities, tax revenues rose by 1.9%. Without including the Regional and Local Governments, and in non-homogeneous terms, the fall stands at 1.3%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, decreased by 0.4% up to October, largely due to the impact of the reform in labour and capital withholdings. However, personal income tax revenues up to October moderated their y-o-y fall rate by seven tenths in comparison to the revenues accumulated until September, due to the fact that the revenue of 2015 already included in September the total effects of the rate cut approved in the RDL 9/2015. In homogeneous terms, the reduction stands at 0.7%.

Revenues from corporate tax stood at € 19.1 billion up to October 2016, compared to the € 17.0 billion registered a year earlier (12.1% increase), mainly due to the application of RDL 2/2016, which approves a change in the way the instalment payments for large companies and consolidated groups are calculated, implying a 43.4% increase of the second payment on account, compared to the 48.7% decrease of the first payment. In homogenous terms, the collection increased by 6.2%.

VAT revenues, including the Regional and Local Governments' share, increased by 4.6% y-o-y up to October. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 3.4%.

Excise duties collection, including the Regional and Local Governments' share, was 3.7% higher compared to the figure registered in the same period of 2015, mainly due to the increase in the Duty on Hydrocarbons (8.6%, which in homogeneous terms, corrected for the health cent refunds, stood at 3.1%). The Excise on Tobacco Products rose by 1%.

The State's non-financial payments decrease up to October

With regard to expenses, the total non-financial payments decreased by 0.1% up to October, compared to the figure recorded in the same period of 2015, due to the fall of staff expenses (-2.2%), current transfers (-5.4%), real investments (-31.8%) and capital transfers (-27.9%). On the other hand, current expenses on goods and services increased by 8%, and financial expenses rose by 31%.

Table 5.3. **Social Security System Budget Outturn**

Accumulated amounts in millions euros. Year-on-year in %

	2015	2016	%	2015	2016	%
	Outturn	Budget	Change	October	October	Change
1. REVENUE	119,343	137,522	15.2	105,001	104,523	-0.5
Social Security contributions	99,156	117,243	18.2	83,787	86,221	2.9
Current transfers	15,714	16,732	6.5	14,627	14,885	1.8
<i>of which: from the State</i>	13,094	13,143	0.4	12,275	12,335	0.5
Property income	2,632	1,634	-37.9	1,753	1,633	-6.9
Other revenue (1)	1,842	1,914	3.9	4,833	1,784	-63.1
2. EXPENDITURE	133,297	141,266	6.0	110,338	110,824	0.4
Contributory pensions	114,421	121,233	6.0	92,472	95,252	3.0
Sickness benefits	5,488	5,398	-1.6	4,275	4,749	11.1
Maternity benefits	2,142	2,204	2.9	1,792	1,798	0.3
Other benefits	2,285	2,107	-7.8	1,729	1,745	0.9
Wages and salaries	2,250	2,358	4.8	1,813	1,819	0.3
Goods and services purchases	1,414	1,478	4.5	1,063	1,008	-5.1
Other revenue (2)	5,298	6,489	22.5	7,194	4,452	-38.1
3. CASH BALANCE (1-2)	-13,954	-3,745	-73.2	-5,337	-6,301	18.1
As % of GDP	-1.3	-0.4		-0.50	-0.57	

(1) Fees and other current revenues, disposal of real investments and capital transfers. (2) Interest payments, real investments, other current transfers and capital transfers.

Source: Intervención General de la Seguridad Social, Ministerio de Empleo y Seguridad Social.

The borrowing requirement up to October 2016 amounted to € 27.4 billion, compared to the € 53.1 billion recorded in the same period of 2015. This evolution is due to the lower net increase of financial assets (€ 17.8 billion, compared to the € 50.4 billion recorded a year earlier), which in turn is mainly due to the fall in the position in other deposits in the Bank of Spain, partially offset by the higher cash deficit (€ 9.6 billion, compared to the € 2.7 billion recorded a year earlier). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 24.8 billion).

Social contributions increase by 2.8% y-o-y up to October

On the other hand, up to October 2016, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 6.3 billion in terms of Cash, 18.1% higher than the figure recorded in the same period of 2015 (€ 5.3 billion). Revenues decreased by 0.5% mainly due to the decline in capital transfers (-76.4%) and, to a lesser extent, to the fall in property income (-6.9%), partially offset by the increase registered in social security contributions (2.9%) and in the State's current transfers (0.5%). On the other hand, payments rose by 0.4%, mainly due to the increase in pensions (3%), temporary disability (11.1%) and staff expenses (0.3%). Finally, regarding Social Security's management expenses, current expenses on goods and services fell by 5.1%.

The General Government EDP debt slows down in September

The Bank of Spain published the General Government Debt data for September 2016, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt slowed down 1.1 points in September compared to August, to 3.5% year on year, reaching € 1,104.9 billion.

By subsectors, the State EDP Debt stood at € 949.4 billion, which implies an increase of 4.1% in comparison to the same period of 2015. On the other hand, the Regional Government EDP Debt reached € 271.2 billion, 6.9% higher than that recorded in the same month of 2015. Regarding the Social Security Administrations, the EDP Debt reached € 17.2 billion (€ 17.2 billion in September 2015). Finally, Local Corporations registered in September an EDP Debt of € 34.8 billion, 5.7% lower compared to that of the same period of 2015.

6. - BALANCE OF PAYMENTS

The Balance of Payments generates net lending to the rest of the world

According to the available Balance of Payments data, in the first nine months of 2016, the Spanish economy generated a net lending to the rest of the world of € 16.4 billion (2% of GDP), versus a net lending of € 11.4 billion (1.4% of GDP) in the same period last year.

The *current account* balance accumulated a surplus of € 14.0 billion, a figure significantly higher than the one recorded in the same period of 2015 (€ 8 million). This result is due to an increase in the surplus of goods and services and a moderation of the deficit of primary and secondary incomes. On the other hand, the capital surplus fell by 35.2%.

In parallel, the financial balance registered net capital outflows amounting to € 7.5 billion, versus net outflows of € 20.9 billion a year earlier. This fall in the net outflows was due to a €

49.1 billion increase in the net debtor position of the Bank of Spain, partially offset by an increase in the net capital outflows excluding the Bank of Spain standing at € 56.6 billion.

Table 6.1. **Balance of payments. Non-financial operations (1)**
€ millions

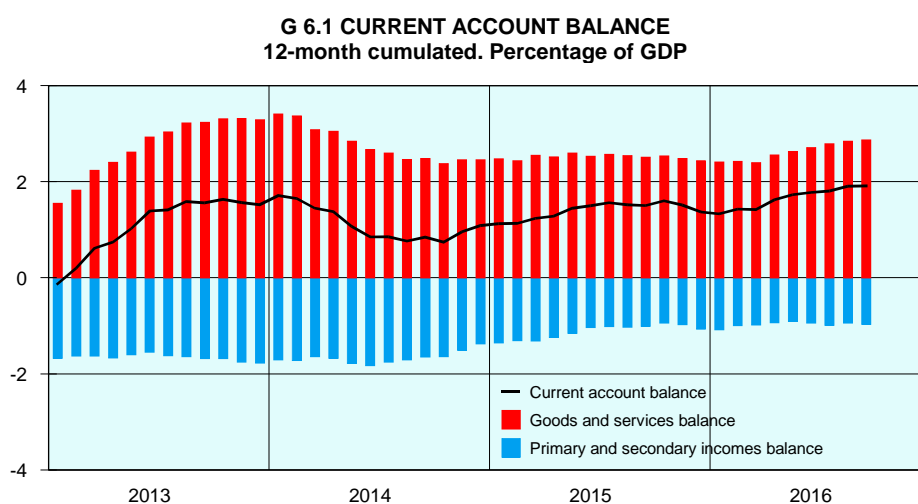
	January-September 2015			January-September 2016		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	315,532	304,179	11,355	323,335	306,917	16,418
Current account	311,294	303,603	7,690	319,783	305,736	14,046
Goods and services	266,445	244,927	21,519	273,523	246,500	27,022
<i>Tourism</i>	40,028	11,509	28,519	42,547	13,792	28,755
Primary and secondary income	44,849	58,676	-13,828	46,260	59,236	-12,976
Capital account	4,238	576	3,661	3,552	1,181	2,372

(1) The sum of the items does not always match the total due to rounding.

Source: Banco de España.

The surplus of goods and services increases

The exchanges of goods and services with the rest of the world between January and September 2016 resulted in a surplus of € 27.0 billion, 25.6% higher compared to the figure recorded in the same period last year. In nominal terms, exports increased by 2.7% and imports by 0.6%. These rates were 2.7 and 4.7 points lower, respectively, than the ones registered in the same months of 2015.



The trade balance improves due to the reduction of the energy deficit

The Balance of Payments only provides disaggregated data between the balances of goods and services for the first half of 2016. According to Customs data, which show a similar evolution, in the first nine months of 2016, the energy goods trade deficit decreased by 29.8%, in

line with the evolution of the price of imported oil which, measured in euros, became 29.3% cheaper on average during the period, while the non-energy balance surplus fell by 34.8%. As a result, the trade deficit fell by 29%. Using the unit value indices of the Ministry of Economy, Industry and Competitiveness, the terms of trade improved by 2.3%, continuing the 2.9% improvement of the same period of 2015 and contributing to the trade deficit reduction.

Tourism revenues accelerate...

The *balance of tourism services* accumulated up to September a surplus of € 28.8 billion, 0.8% higher than in the same period of 2015. This result reflects an increase of 6.3% of tourism revenues, which implies an acceleration compared to the 3% registered in the same period of 2015. Spending by foreign tourists, according to the Tourist Expenditure Survey (EGATUR), increased by 7.6% y-o-y in the period (7.2% in the previous year), and tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 10.2%, doubling the figure for the same period last year.

...the same as tourism payments

Tourism payments, as a result of Spanish residents travelling abroad, grew by 19.8% in the first nine months of 2016 compared to a year earlier. This rate is 5.5 points higher than the one recorded in the same period of 2015.

The deficit of primary and secondary income falls

The *balance of primary and secondary income* accumulated a deficit of € 13 billion between January and September 2016, 6.2% lower than that recorded in the same months of 2015, due to a revenue increase (3.1%) higher than that of payments (1%), in comparison to the 5.2% and -2.2% rates registered in the same period last year. There are only data available split into primary and secondary income up to June 2016. The only available data up to September 2016 are included in the secondary income and, in particular, are provided by the Directorate General of the Treasury and Financial Policy corresponding to financial flows with the European Union, which show a contraction in the net current transfers received from the EU of € 970 million, similar to that registered a year earlier, with a fall in revenues (-4.1%) slightly higher than that of payments (-3.7%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, rose by 14.3%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy fell by 7.4%. On the payments side, within public payments for the EU, the Traditional Own Resources grew (8.9%) and those related to the VAT Resource (-12.5%) and to the GNI Resource (-5.3%) fell, although it should be noted that these payments are not divided in the same way through all financial years.

The surplus of the capital balance decreases

In the first nine months of 2016 the *capital balance* generated a surplus of € 2.4 billion, 35.2% lower in comparison to the same period last year. This rate is due to a fall in revenues (-16.2%) and to a strong increase in payments, which doubled. Capital transfers from the EU fell by 51%, to € 2 billion over the same period last year. The most important quantitatively were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, the decline of those received by the Cohesion Fund, that barely reach four million euros, and those corresponding to the ERDF (-49.9%, to

€ 1.8 billion) stand out. However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

Table 6.2 Financial flows with the European Union

	Million euro					% y-o-y change		Accumulated amounts		
	2015		2016			2016		Million euro		% y-o-y change
	III	IV	I	II	III	II	III	2015 I-III	2016 I-III	2016 I-III
Net current transfers	-541	-1,504	1,047	-361	-1,656	-76.9	206.4	-981	-970	-1.1
- Revenue	1,035	810	4,428	1,489	1,115	45.7	7.7	7,333	7,032	-4.1
Refunds CAP	603	503	4,000	931	856	56.8	42.1	6,251	5,787	-7.4
ESF	355	169	355	491	213	25.0	-40.0	926	1,059	14.3
Other subsidies	78	138	73	67	46	88.4	-40.7	156	186	19.2
- Payments	1,576	2,314	3,381	1,849	2,771	-28.4	75.9	8,313	8,002	-3.7
VAT	183	135	493	206	332	-37.2	82.1	1,178	1,031	-12.5
GNI	994	1,734	2,373	1,294	2,009	-33.0	102.1	5,992	5,677	-5.3
Traditional Own Resources	325	373	346	348	337	7.3	3.7	947	1,030	8.9
Other	75	71	169	1	93	--	25.3	196	264	34.3
Capital transfers	1,712	807	812	861	277	-54.1	-83.8	3,983	1,951	-51.0
ERDF	1,648	699	775	814	251	-53.1	-84.8	3,671	1,840	-49.9
Cohesion Fund	57	13	3	0	0	-100.0	-99.3	244	4	-98.6
Other	7	96	34	47	26	166.8	272.6	69	107	56.1

Sources: D. G. Tesoro and SGACPE.

Net capital outflows in financial transactions with the rest of the world, excluding the Bank of Spain

Between January and September 2016, the *financial account* recorded net capital outflows amounting to € 7.5 billion, versus the net outflows of € 20.9 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 56.6 billion (6.9% of GDP) up to September, higher than the net outflows of € 44.2 billion registered a year earlier. This result includes positive balances (investments) in asset and liability transactions.

Foreign investment in Spain moderates...

The change in liabilities generated net capital inflows up to September 2016 worth € 7.2 billion, 90.9% lower than the net inflows registered a year earlier. The direct investment balance rose by 77.5% y-o-y, reaching net inflows of € 27.8 billion, which were channelled toward other resident sectors (only the breakdown by instrument for the first half is available). On the other hand, portfolio investment recorded net outflows amounting to € 11.5 billion (net inflows of € 69.6 billion in the first months of 2015), due to the results of Monetary Financial Institutions. Finally, other investments (loans, deposits and repos) recorded net outflows of € 9.2 billion, 40.4% more than the net outflows seen in the same period of 2015, the financial private sector being the leading party.

...as well as Spain's investment abroad

The change in net assets with the rest of the world, excluding the Bank of Spain, accumulated in the first nine months of 2016 net capital outflows (investments) of € 63.8 billion, 48.2% lower compared that of the last year. Direct investment accumulated capital outflows

amounting to € 38.6 billion, 6.3% lower than a year earlier, coming mainly from other resident sectors. The portfolio investment balance fell by 75.5%, registering net outflows of € 18.1 billion, mainly corresponding to the non-financial private sector. On the other hand, other investment recorded net outflows amounting to € 9.3 billion, 17% higher than a year earlier, led by the private sector, especially Monetary Financial Institutions. Finally, financial derivatives registered net inflows of € 2.3 billion (€ 1.4 billion a year earlier).

Table 6.3 **Balance of payments. Financial operations (1)**

	Millions of euros					
	January-September 2015			January-September 2016		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	99,658	78,800	20,858	14,689	7,158	7,531
- Excluding Bank of Spain	123,034	78,800	44,234	63,772	7,158	56,614
<i>Direct investment</i>	41,228	15,685	25,542	38,648	27,844	10,803
Monetary financial institutions	9,316	-1,032	10,348	5,030	1,282	3,748
Other resident sectors	31,913	16,718	15,195	33,619	26,563	7,056
<i>Portfolio investment</i>	74,115	69,634	4,482	18,127	-11,531	29,659
General Government	-202	59,546	-59,748	96	1,504	-1,408
Monetary financial institutions	9,663	12,587	-2,924	-2,362	-14,152	11,790
Other resident sectors	64,654	-2,500	67,154	20,393	1,116	19,277
<i>Other investment</i>	9,096	-6,519	15,612	9,250	-9,155	18,403
General Government	-4,196	-6,780	2,584	-1,286	-1,023	-263
Monetary financial institutions	6,763	-1,452	8,215	7,399	-8,369	15,768
Other resident sectors	6,529	1,713	4,816	3,137	237	2,900
<i>Financial derivatives</i>	-1,400	-	-1,400	-2,253	-	-2,253
- Bank of Spain	-23,376	-	-23,376	-49,081	-	-49,081
Reserves	4,861	-	4,861	8,006	-	8,006
Claims on the Eurosystem	-27,963	-	-27,963	-54,005	-	-54,005
Other net assets	-274	-	-274	-3,082	-	-3,082
- Net errors and omissions	9,506	-	9,506	-8,887	-	-8,887

(1) The sum of the items sometimes does not match the total due to rounding.

Source: Banco de España.

The net position of the Bank of Spain vis-à-vis the Eurosystem increases

Current, capital and financial, transactions generated a decrease of € 49.1 billion of net assets of the Bank of Spain, a figure that includes an increase of the reserves standing at € 8.0 billion, a decrease (increase of the net position) of € 54.0 billion assets vis-à-vis the Eurosystem and a decrease of € 3.1 billion in other net assets

The NIIP improves in the second quarter of 2016

The *Net International Investment Position* (NIIP) decreased its debtor balance in the second quarter of 2016, compared to the same period of 2015, by € 21.4 billion, reaching € 969.8 billion. The debtor NIIP accounted for 88.5% of GDP in the second quarter of 2016, 5.5 points less than in the previous year. Assets amounted to € 1.7 trillion, 4.9% more compared to a year earlier, and liabilities € 2.7 trillion, 2.2% more compared to the same period of 2015.

Furthermore, the gross external debt stood in the second quarter of 2016 at € 1.9 trillion (171.5% of GDP), versus the € 1.8 trillion registered in the same period of 2015 (170.4% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 817 billion in the second quarter of 2016, 8.6% less than a year earlier. A 23.9% increase of the direct investment debtor balance was recorded, up to € 48 billion. On the other hand, a 8.5% reduction of the debtor balance was recorded in portfolio investment, to € 573 billion, and a 17.3% reduction of the other investment debtor balance, to € 186 billion.

The Bank of Spain increased its debtor balance by €55.1 billion in the second quarter of 2016 compared to a year earlier, up to € 153.3 billion, equivalent to 14% of GDP. This increase is explained by the expansion of the Bank of Spain debtor balance vis-à-vis the Eurosystem (€ 67.2 billion), while, on the other hand, reserves rose by € 5.3 billion and the balance of other net assets went from € -1.9 billion to € 4.9 billion.

December 2016